University of Strathclyde
Department of Accounting and Finance

Cultural Theory, Social Arena, Accountingisation and Value-Based Organisations: Exploring risk perceptions and risk reporting of statutory organisations in Malaysia

by
Nor Hanim Sulaiman
MSc in Accounting and Finance
University of Stirling

A thesis submitted in fulfilment of the requirements
for the degree of
Doctor of Philosophy

September 2008

DECLARATION OF AUTHOR'S RIGHTS

ABSTRACT

The purpose of this research is to explore risk perceptions and risk reporting of statutory organisations in Malaysia. The methodologies employed are inductive and cooperative inquiry. This study is qualitative due to the subjective interpretivist position on risk perceptions and risk reporting adopted. The research technique is a case study of two case organisations, namely the Pilgrims Fund and the Armed Forces Fund. Within the case study, the research methods are interviews, questionnaires and documentary review.

Findings showed that there is a significant relationship between risk perception and the amount of risk reported by both organisations. This is in accordance with cultural theory. Although reported risks are voluntarily disclosed by both organisations, the Pilgrims Fund was not as transparent as its stakeholders expected. There seems to be accountingisation of the value-based Pilgrims Fund. Risk reporting is shifting to comply with the economic-based regulatory mechanism. The stakeholders reacted by requesting more disclosure. The Pilgrims Fund responded by producing alternative reporting. Meanwhile, the Armed Forces Fund seems to be more transparent and more uniform in its risk disclosure. There is less reaction from the stakeholders. There seems to be minimal impact of accountingisation since the Armed Forces Fund has economic-based objectives, in line with the rationality of its stakeholders.

Within each arena, the inter-relationships between the different policy systems conform to the social arena metaphor. Dependent on their resources and interests, issue amplifiers highlight the risk information shared by the actors and the rule enforcer with other policy systems within the arena. As a conclusion, this research extends the applicability of cultural theory and the social arena metaphor to both case organisations operating within a single nation.

ACKNOWLEDGEMENTS

I am forever indebted to both my parents who brought me up with such love and care, and instilled in me the importance of education. Being a PhD student is a learning process, a lonely one should I not have been with the help and guidance of my supervisor who has accommodated my many immature questions. To him I extend my deepest gratitude. This research will also not be possible without the ongoing encouragement from my husband and my lovely daughter especially during the difficult times. To both of them I express my heartfelt appreciation. Last but not least, I would like to thank friends who have, in one way or another, given me the opportunity to know myself better. May God bless us all.

ACRONYMS

AAOIFI	:	Accounting and Auditing Organisations for Islamic Financial Institutions
AAS	:	Australian Accounting Standards
ACCA	:	Association of Chartered Certified Accountants
AFF	:	Armed Forces Fund
AG	:	Auditor-General
AICPA	:	American Institute of Certified Public Accountants
CICA	:	Canadian Institute of Chartered Accountants
EPF	:	Employees Provident Fund
FASB	:	Financial Accounting Standards Board
FRS	:	Financial Reporting Standards
ICAEW	:	Institute of Chartered Accountants in England and Wales
ICR	:	Islamic Corporate Report
IIA	:	Institute of Internal Auditors
ISA	:	International Standards on Auditing
IT	:	Information Technology
MASB	:	Malaysian Accounting Standards Board
MICG	:	Malaysia Institute of Corporate Governance
MICPA	:	Malaysian Institute of Certified Public Accountants
MSWG	:	Minority Shareholders Watchdog Group
NCL	:	National Capitalisation Limited
NHFS	:	National Health Financing Scheme
NHS	:	National Health Service
NRC	:	National Research Council
PAC	:	Public Accounts Committee
PAS	:	Islamic Party
PF	:	Pilgrims Fund
PMD	:	Prime Minister's Department
PSD	:	Public Services Department
SAGA	:	Standardised Accounting for Government Agencies
SEC	:	Securities and Exchange Commission
SocSO	:	Social Security Organisation

TABLE OF CONTENTS

DECLARATION OF AUTHOR'S RIGHTS i

ABSTRACT ii

ACKNOWLEDGEMENTS iii

ACRONYMS iv

TABLE OF CONTENTS v

LIST OF TABLES xi

LIST OF FIGURES xiii

CHAPTER 1 INTRODUCTION 1
Introduction 1
Motivation 3
Research objectives, research questions and research hypotheses 5
Research methods 12
Contribution to knowledge 14
Structure of the thesis 17
Summary 22

CHAPTER 2 LITERATURE REVIEW 25
Introduction 25
Stewardship-accounting role of management, 'accountingisation' and risk 26
Evolution of stewardship-accounting role of management 26
'Accountingisation' of value-based organisations 27
Value-based versus economic-based research 28
Public sector and risk 29
Risk perception 31
Definition of risk 33
Objective versus subjective views of risk 35
Social arena metaphor of risk debates 38
Policy systems, roles and relationships 39
Some major sociological perspectives of risk 46
Cultural theory 46
Arguments against cultural theory as a comprehensive theory of risk 50
Definition of culture 51
Studies on culture 52
Risk and culture 55
Islamic accounting, risk and culture 55
Risk reporting 63
Accounting disclosure 63
Risk disclosure, accountability, transparency and regulations 63
Disclosure and culture 71

Information communication 72
Internal information communication 72
External information communication 73
Mass media influence 74
Some thoughts on the literature review and this research 76
Summary 80

CHAPTER 3 RESEARCH METHODOLOGY AND METHODS 81
Introduction 81
Research ontology 83
Research epistemology 84
Research methodology 85
Research methods 86
Issues on research methods: 90
Choice of cases 90
Similarities 90
Differences 91
The years chosen for the Annual Financial Statements 91
Problems of accessibility, control and the secrecy oath 92
Consent to research 92
Research methods - Interviews 93
Research methods - Questionnaires 96
Research methods - Documentation review 98
Limitations of the research 99
Data analysis 101
Risk perception - Analysis of institutions 101
Risk perception - Interviews 104
Risk reporting - Analysis of content 105
Summary 113

CHAPTER 4 EMPIRICAL FINDINGS: THE PILGRIMS FUND 116
Introduction 116
Statutory bodies 116
Establishment and objective 116
Regulatory framework on statutory bodies 118
Comprehensive changes to reporting regulations 118
Authority 123
Responsibilities 124
Returns performance and recognition 125
General information regarding the case organisations 126
The Pilgrims Fund 127
Introduction 127
The organisation 129
Changes to regulations impacting on values 130
Governance: The background of, changes in the tenure and its (mis)management 132
Growth and development 136
Membership and registration for pilgrimage 137

Risk perception within the Pilgrims Fund 137
Risk perception from interviews 139
Internal risk communication from interviews 141
Risk perception from questionnaires 143
Pilgrims Fund: Values and culture 144
Islamic risk system 147
Risk reporting: The Pilgrims Fund's Annual Financial Statements (1996-2003) 149
1. Significant risk points to be noted on the Annual Financial Statements 149
Pilgrims Fund: Profit and Loss Account (1996-2003) 152
Pilgrims Fund: Balance Sheet (1996-2003) 156
Pilgrims Fund: Statement of Changes in Equity (2001-2003) 158
Pilgrims Fund: Cash Flow Statement (1996-2003) 159
Pilgrims Fund: Notes to the Account (1996-2003) 159
2a. Risk disclosure categories within the financial statement as per ICAEW (1998) 162
2b. Risk disclosure categories within the financial statement as per adapted expected disclosures (Maali, Casson & Napier 2006) integrated with the risk disclosure categories (ICAEW 1998) 167

CHAPTER 5 EMPIRICAL FINDINGS: THE ARMED FORCES FUND 174
Introduction 174
The organisation 174
Armed Forces Fund regulation 176
Governance: Stability of management: Background and tenure 177
Growth and development 178
Membership 179
Risk perception within the Armed Forces Fund 180
Risk perception from interviews 181
Internal risk communication from interviews 183
Risk perception from questionnaires 186
Armed Forces Fund: Values and culture 187
Risk reporting: Armed Forces Fund Annual Financial Statements (1996-2003) 188
1. Significant risk points to be noted on the Annual Financial Statements 189
Armed Forces Fund: Profit and Loss Account (1996-2003) 191
Armed Forces Fund: Profit and Loss Appropriation Account (1996-2003) 192
Armed Forces Fund: Balance Sheet (1996-2003) 193
Armed Forces Fund: Members' Contribution Account (1996-99) 194
Armed Forces Fund: Statement of Changes in Equity (2000-03) 195
Armed Forces Fund: Cash Flow Statement (1996-2003) 196
Armed Forces Fund: Notes to the Accounts (1996-2003) 196
2. Risk disclosure categories within the financial statement as per ICAEW (1998) 197
Summary 204

CHAPTER 6 EMPIRICAL FINDINGS: THE SOCIAL ARENA 206
Introduction 206
Pilgrims Fund: Constituent policy systems, roles, their inter-relationship amongst themselves and with the Pilgrims Fund 207

Actors 207
Stakeholders 212
General public 212
Rule enforcer 212
Issue amplifiers 213
Social group 214
Political institution 214
Other policy systems 214
Results from the customers questionnaires 215
Armed Forces Fund: Constituent policy systems, roles, their inter-relationship amongst themselves and with the Armed Forces Fund 216
Actors 217
Stakeholders 218
General public 218
Rule enforcer 218
Issue amplifiers 218
Social group 219
Political institution 219
Other policy systems 219
Representations through the media - Alternative risk reporting 220
Representations through the media – Pilgrims Fund and Armed Forces Fund.... 234
One mechanism for all 239
Summary 241

CHAPTER 7 ANALYSIS OF FINDINGS 243
Introduction 243
Stewardship-accounting role of management, 'accountingisation' and risk 243
Risk perception 245
Objective versus subjective views of risk 247
Some major sociological perspectives of risk 251
Risk and culture 256
Islamic accounting, risk and culture 256
Cultural theory 260
Arguments against cultural theory as a comprehensive theory of risk 260
Social arena metaphor of risk debates 261
Risk perception: Analysis of findings from the questionnaires survey 264
Risk reporting 265
Accounting disclosure 265
Risk disclosure and regulations 265
Disclosure and culture 268
Public sector accountability and transparency 269
Information communication 271
Internal information communication 271
External information communication 273
Mass media influence 274
Some thoughts on the analysis of findings 276
Summary 284

CHAPTER 8 CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH 286
Introduction 286
This study and the organisations: revised contribution and conceptual limitations of this research 287
This study and the government: revised contribution 290
A critical analysis of the findings – implications for accounting research 296
Suggestions for future research. 297

BIBLIOGRAPHY 299

WEBLIOGRAPHY 316

APPENDICES 322

Appendix A1: Table showing risk disclosure issues in the Auditor-General's Certificate and Report and replied to by the Pilgrims Fund management in 1996 with the Pilgrims Fund coding grid. 322

Appendix A2: Table showing risk disclosure issues in the Pilgrims Fund's Notes to the Accounts for the year 1996, according to the coding grid. 323

Appendix A3: Table showing risk disclosure issues in the Auditor-General's Certificate and Report and replied to by the Pilgrims Fund management in 1997 with the Pilgrims Fund coding grid. 324

Appendix A4: Table showing risk disclosure issues in the Pilgrims Fund's Notes to the Accounts for the year 1997, according to the coding grid. 325

Appendix A5: Table showing risk disclosure issues in the Armed Forces Fund's Notes to the Accounts for the year 1996, according to the coding grid 326

Appendix A6: Table showing risk disclosure issues in the Auditor-General's Certificate and replied to by the Armed Forces Fund management in 1997 with the Armed Forces Fund coding grid 328

Appendix A7: Table showing risk disclosure issues in the Armed Forces Fund's Notes to the Accounts for the year 1997, according to the coding grid 329

Appendix A8: Table showing risk disclosure issues in the Auditor-General's Certificate and Report and replied to by the Armed Forces Fund management in 1998 with the Armed Forces Fund coding grid. 331

Appendix A9: Table showing Interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view. 332

Appendix A10: Table showing the full questionnaire including a full justification of the questions posed (Set 1) 344

Appendix A11: Table showing the questionnaire recipients and response rate: Set 1 – (Within and outwith the organisation's premises) 349

Appendix A12: Table showing the questionnaire recipients and response rate: Set 2 349

Appendix A13: Table showing the risk framework used for analysing the different risk rationalities............ 350

LIST OF TABLES

Table 1: Research objectives, research questions and hypotheses 23
Table 2: Primary and secondary stakeholders and non-stakeholders 42
Table 3: The basic determinants of the four political cultures 49
Table 4: Value added statement 59
Table 5: Expected disclosures 61
Table 6: Risk disclosure categories 65
Table 7: A classification scheme: risk factors and semantic properties 68
Table 8: Network of Basic Assumptions Characterizing The Subjective-Objective Debate within Social Science 87
Table 9: List of interviewees 94
Table 10: Main interview questions 95
Table 11: Analysis of questionnaire questions from the respondent's point of view. 97
Table 12: Questionnaire survey on keeping money in the Pilgrims Fund 98
Table 13: Identification of rationalities to each question – strongly agree 102
Table 14: Identification of rationalities to each question - strongly disagree 102
Table 15: Findings from the control group 103
Table 16: Expected disclosures (adapted to risk disclosure categories) 109
Table 17: Decision rules for risk disclosures 112
Table 18: Decision rules for risk disclosures – adapted from Linsley and Shrives (2006, p. 402) 112
Table 19: Research questions and the method of analysis used on answers 114
Table 20: Additional regulations with implications on statutory bodies 119
Table 21: The financial reporting standards 121
Table 22: Descriptive statistics measuring company size in 2003 (to the nearest RM'000) 126
Table 23: Ministers-in-charge of the Pilgrims Fund 1995-2007 132
Table 24: Chairman and Chief Executive Officer for the Pilgrims Fund for the period 1996 to 2003 134
Table 25: Risk perception of the Pilgrims Fund interviewees 140
Table 26: Perceptions in the employees-organisation debate within the Pilgrims Fund 143
Table 27: Conflicting perceptions in the members-organisation debate 146
Table 28: Risk items disclosed in the Pilgrims Fund's Annual Financial Statements. 150
Table 29: List of accounting risk disclosure – the Pilgrims Fund's Profit and Loss Account 152
Table 30: List of accounting risk disclosure – the Pilgrims Fund's Balance Sheet. 156
Table 31: List of accounting risk disclosure – the Pilgrims Fund's Statement of Changes in Equity (later known as Statement of Changes in Consolidated Reserves) 158
Table 32: Items that may not be easily understood in the notes to the accounts 161
Table 33: Pilgrims Fund: Summary of risk disclosure categories 1996-2003 163
Table 34: Expected disclosures (Maali, Casson & Napier 2006) integrated with risk categories (ICAEW 1998) in the Auditor-General Certificate, Report and Replies. 169
Table 35: Expected disclosures (Maali, Casson & Napier 2006) integrated with risk categories (ICAEW 1998) notes to the accounts 170

Table 36: List of accounting risk disclosure - the Pilgrims Fund's Depositors' Provident Fund balances from 1995 to 2003 171
Table 37: List of accounting risk disclosure – the Pilgrims Fund's Income and Net Profits after *Zakat* for the period 1996 -2003........ 172
Table 38: Ministers-in-charge of the Armed Forces Fund 1996-2007 177
Table 39: Risk perception of the Armed Forces Fund interviewees........ 181
Table 40: Perceptions in the employees-organisation debate within the Armed Forces Fund 186
Table 41: Conflicting perceptions in the members-organisations debate (Armed Forces Fund) 188
Table 42: Risk items disclosed in the Armed Forces Fund Annual Financial Statements 189
Table 43: List of accounting risk disclosure – the Armed Forces Fund's Profit and Loss Account........ 191
Table 44: List of accounting risk disclosure – the Armed Forces Fund's Profit and Loss Appropriation Account........ 192
Table 45: List of accounting risk disclosure – the Armed Forces Fund's Balance Sheet........ 193
Table 46: List of accounting risk disclosure – the Armed Forces Fund's Members' Contribution Account........ 194
Table 47: List of accounting risk disclosure – the Armed Forces Fund's Statement of Changes in Equity (Beginning 2000)........ 195
Table 48: Armed Forces Fund: Summary of risk disclosure categories 1996-2003 198
Table 49: List of accounting risk disclosure - the Armed Forces Fund's Annual increase in Members' Contributions 201
Table 50: The Armed Forces Fund – Income and Net Profit after Tax 203
Table 51: Types of Audit Reports........ 209
Table 52: Types of Audit Reports received 211
Table 53: Risk disclosure category in special pull-out magazine 5 January 2003... 221
Table 54: Risk disclosure within alternative documentation 228
Table 55: Expected disclosures (Maali, Casson & Napier 2006) adapted to risk disclosure categories (ICAEW 1998) in the alternative risk reporting documentation 229
Table 56: Pilgrims Fund: News on the net........ 235
Table 57: Armed Forces Fund's News on the net........ 236
Table 58: Reported risks categories 237

LIST OF FIGURES

Figure 1: Graphical representation of the arena metaphor.. 45
Figure 2: Major sociological perceptions on risk.. 47
Figure 3: The four rationalities 49
Figure 4: The research philosophy approaches for this research 82
Figure 5: Subdivisions of a Ministry... 117
Figure 6: The regulatory framework on statutory bodies.. 118
Figure 7: Schedule of latest dates for statutory bodies' financial statement returns 123
Figure 8: Graphical representation of the arena metaphor of the Pilgrims Fund..... 262
Figure 9: Graphical representation of the arena metaphor of the Armed Forces Fund
.... 263

CHAPTER 1 INTRODUCTION

Introduction

The first part of this chapter introduces the motivation that drives the study, giving a flavour of the case organisations. This is followed by the research objectives, research questions and research hypotheses, i.e. an exploration of risk perceptions and risk reporting; and the application of reporting regulations; within the environment of statutory organisations in Malaysia. Then an explanation of the research objectives, research questions and research hypotheses is given at length to provide a sense of direction to the study and to facilitate explanation of the remaining sections in this chapter. The research methods and the contribution to knowledge sections which follow are explained in relation to the research objectives, research questions and hypotheses. Lastly, the structure of the thesis is provided.

It is the intention of this research to explore the risk perceptions within statutory organisations which are regarded as semi-government bodies in Malaysia; their risk reporting, in fulfilling the stewardship-accounting role of management; the application of a one-rule-fits-all reporting regulation; and the action and reaction of parties within the social arena of the two contrasting case organisations: namely the Pilgrims Fund and the Armed Forces Fund[1]. More specifically, the first objective is to identify the risk perception of the organisations and that of the individuals within, i.e. how this might have affected their risk reporting behaviour. The second objective is to explore the risk reporting of the organisation in their regulated Annual Financial Statements between the years 1996-2003, i.e. the different risk categories which were disclosed. The third objective is to explore the risk reporting of each organisation in the media, investigating whether risks have been socially and selectively amplified. It will involve exploring the different policy systems within the social arena of each case organisation (Renn 1992c). The fourth research objective is to explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations.

[1] An interesting point to note is that the majority in the case organisations are individuals of the same ethnic group - they share the same cultural background and practice the same religion, i.e. Islam.

The researcher also intends to reflect on the findings to the four research objectives above in terms of the risk arena in the analysis of findings with respect to four research questions. The first research question is what are the action and reaction of the different policy systems within the arena. The second research question is how the different policy systems have influenced the organisations' risk reporting actions. The third research question asks if there is a possibility of complacency in the case organisations due to the fact that the same people have performed the same tasks for several years. The fourth research question asks if there is the slightest possibility of fraud, in which organisation will it be most likely to happen.

In Malaysia, statutory organisations are established as an arm of the government with the intention of implementing governmental objectives with the hope of avoiding the time consuming red tape of the bureaucracy. Statutory organisations enjoy the flexibility of and are structurally very similar to private sector organisations. They perform different functions according to their incorporating Act of Parliament and have their own set values and objectives. With their sizeable amount of accumulated funds the larger statutory organisations within Malaysia have proven their significance when they bailed the nation out of the implications of the financial crises in Asia both in the later half of 1997 and after the 11th September 2001 bombings in the United States.

In terms of financial reporting, statutory organisations must comply with several changes in the 'blanket' reporting rules and regulations which have progressively developed towards economic-based reporting. The enforcement of these 'blanket' rules is supposed to standardise financial reporting to measure performance of the organisations, similar to the professional accounting standards used in the private sector, enabling various comparisons, for example, comparison of profitability between similar companies and the longitudinal comparison of performance of a company, by interested parties.

However, the application of these reporting rules and regulations on the value-based statutory organisations will pose issues because comparability between statutory organisations is limited; since each statutory organisation exists to serve its individual functions and different values, in line with its incorporating Act. In fact, during the years chosen for this study, from 1996 when the economy was booming, through the double financial crises in late 1997 and in 2001 through to 2007, there is an apparent inability of the existing 'blanket' regulatory mechanism to enhance financial risk reporting in terms of the values required by the users of the financial reports of some statutory organisations. It seems that the users are not satisfied with the 'accountingisation' of reporting and require more information and the organisations are responding through other reporting channels. This is observed by an increase in the use of the media, especially during the twelve months' gap between each regulated Annual Financial Statements, with high public interest on some statutory organisations despite their clean audit reports.

With respect to the environment external to the organisations, this research will also explore the different policy systems within which the organisations operate, i.e. handling of the reported information by the different policy systems within the arena, the political (for example, regarding governance and the government), social (for example, the people and their interactions) and cultural factors (for example, risk rationality), and understanding each party and how they interact. Due to the different incorporating Acts, the parties within the social arena where each organisation operates may be different, although there is a possibility that the same party/parties will act in the arenas of several different organisations.

The above section introduced the research giving an idea on the intention of the study and the issues surrounding it, whilst the following section will discuss the motivation for this research.

Motivation

The motivation for this study stems from the fact that the researcher is a second generation contributing member of the Pilgrims Fund, one of the better performing statutory organisations. The researcher has literally been home educated on its benefits and therefore has a vested interest in it. There is also an awareness of the media and public interest in the operations of the Pilgrims Fund which curiously, do not seem to recede even with the steady improvement of its organisational reporting depicted by clear audit reports for the years 2001 to 2003. Thus the goal of this research is exploratory, i.e. to satisfy curiosity; and to provide a better understanding on the risk perception, risk reporting and the different policy systems within each case organisation's environment.

Pilgrims Fund has remained in the limelight for both positive and negative reasons. Its management has been criticised for its comparatively poor dividends performance as well as poor withdrawals control procedures leading to considerable losses in contributors' accumulated funds. Its top management has denied responsibility for poor financial performance by predecessors in earlier years. On the other hand, the Pilgrims Fund has also received several commendations. It achieved the Public Service Director-General Award for Quality; the Prime Minister's Award for Quality (both in 1993) and was honoured by Dr. Iyad Ameen Madani, the Minister of Pilgrimage in Saudi Arabia for its superb conduct of pilgrims. Due to this commendation, the Pilgrims Fund was given the honour to host the first Pilgrimage Training Conference outside Saudi Arabia, a conference with 120 delegates including 17 ministers from 40 Islamic countries, to improve the pilgrimage management system[2].

In contrast, the Armed Forces Fund, being the only other statutory organisation which has consented to this research, and is subject to similar rules and procedures to the Pilgrims Fund, managed to pay out comparatively high dividends, maintained its performance through receipt of a number of awards similar to the Pilgrims Fund throughout the years, i.e. the Public Service Director-General Award for Quality and the Prime Minister's Award for Quality (both in 2004) but attained much lesser media and public interest.

Both statutory organisations are financially autonomous statutory bodies and lately also known as part of the Government Linked Investment Companies although not literary being 'companies', as they are not registered under the Companies Act 1965. A significant point to note is that the catchment population of the Armed Forces Fund is mostly a subset of the Pilgrims Fund. A majority of the contributors to both

[2]Pilgrims Fund special edition pull-out magazine, 5 January 2003.

funds belong to one ethnic group, practice the same religion and have similar cultural values. Therefore, the application of cultural theory in this research is on an intra-cultural basis.

The above section stated the motivation for the research whilst the following section will give a comprehensive discussion of the research objectives, research questions and research hypotheses.

Research objectives, research questions and research hypotheses

The first research objective is to identify the risk perception of the organisations and that of the individuals within the organisations, based on their attitudes towards risks i.e. their cultural biases (Douglas 1982). The second objective is to explore the risk reporting of the organisation in their regulated Annual Financial Statements between the years 1996-2003, i.e. the different risk categories which have been disclosed. Thirdly, to explore the risk reporting of each organisation in the media, which involves exploring the different policy systems within the social arena of each case organisation (Renn 1992c). The fourth objective is to explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations.

This research will also reflect on the findings of the research objectives in terms of the risk arena in the analysis section with respect to four main research questions. The first research question explores the action and reaction of the different policy systems within the arena. The second research question explores the influence of the different policy systems on the organisations' risk reporting actions. The third research question explores any possibility of complacency in the case organisations due to the fact that the same people have performed the same tasks for several years. The fourth research question explores which organisation would be more prone to fraud.

Due to the research being an exploratory study, based on the research objectives, their corresponding research questions will focus mainly on the how, what, and which. The ensuing research hypotheses are suppositions based on the research objectives and the research questions. They are not proved, but assumed for the purpose of this research, i.e. a theory imagined or assumed to account for what is not understood (Bloomsbury reference dictionary, 1994). Chapter Eight will discuss these hypotheses in relation to the findings.

In the following paragraphs each research objective is followed by their corresponding research questions and research hypothesis. A reflection of related findings will be included in the analysis chapter.

1. The first research objective is to identify the risk perception of the organisations and that of the individuals within. The research questions are:
    a. Which rationality do the organisations belong to as per their stated incorporation objectives?
    b. What is/are the rationality/rationalities of the people within the organisations?
    c. Based on their risk rationalities how do they perceive risks?

This research objective concentrates on the case organisations. It utilises cultural theory's four main risk rationalities (Douglas 1966; Schwarz & Thompson 1990 and Thompson, Ellis & Wildavsky 1990). Cultural theory proposes general attitudes towards the world which was earlier referred to as cultural biases (Douglas 1982), namely hierarchists, egalitarians, individualists and fatalists (Thompson, Ellis & Wildavsky 1990). However, the hermit was a fifth philosophical position added by Thompson and not subjected to traditional empirical study. Through the rationalities, cultural theory indicates that reality may be viewed differently depending upon general attitudes towards the world and each cultural bias captures some part of truth about the world[3]. It seeks to explain risks in terms of the different premise from which people argue (Adams 1995). An individual's risk perception depends on that individual's risk rationality. Lay persons and experts often have differing views of risk because they have different risk rationalities.

[3]http://www.answers.com/topic/blind-men-and-an-elephant and http://en.wikipedia.org/wiki/Cultural_Theory_of_risk 16/10/07

> "Lay persons tend to value the context of risk as well as its content, and base their risk judgements on what often are reasonable predictions of how a risky event will unfold. Experts, in contrast, tend to exclude from their risk assessments variables that are particular to the way in which a risky activity is undertaken (Kimmelman 2004, p. 379)."

The first hypothesis presupposes that the organisation and its members adhere to the same risk rationality. If this is the case, then every individual within the organisation will have very similar perceptions on each risk that they encounter and therefore they should be able to tackle these risks together harmoniously. Thus the first hypothesis is:

H_1 : If the risk rationality of the organisation and the individuals within it is similar, then the organisation should work well together.

2. The second objective is to explore the risk reporting of the organisation in their regulated Annual Financial Statements between the years 1996-2003, i.e. the different risk categories which were disclosed.
    a. What are the rules and regulations on the Annual Financial Statements of the organisations?
    b. Who imposed them?
    c. Is there any specification on risk reporting in the rules and regulations?
    d. Is there any disclosure by the organisations of voluntary compliance to any other reporting rules and regulations?
    e. What information is given in the regulated Annual Financial Statements?
    f. Is there any risk reporting in the Annual Report and if there is, in which section is this done?
    g. What categories of risks have been disclosed?

The second objective intends to find out to what degree risk reporting has been made in the organisations' Annual Reports. Statutory organisations within Malaysia are required to have two different sections in their Annual Reports; firstly, the statement of affairs and secondly the Annual Financial Statements. The statement of affairs reports on the activities of the organisation throughout the year, sometimes including the activities of the different departments within the organisation. The absence of specific mandatory requirement as to what must be reported within this section meant that the contents often vary from one organisation to the other. The Annual Financial Statements are more numeric-based, reporting on the current year's profits and expenses, supplementing the numbers with notes to the accounts. The criteria to be used to evaluate if the case organisations have complied with the rules and regulations will be the Auditor-General's Report.

Similar to the first objective, cultural theory will be used to explain any relationship between the organisation's risk perception, which is based on its risk rationality; and the risk reporting of the organisation. Cultural theory will be similarly used to determine the risk rationality of the bodies imposing the rules and regulations. Given the changing regulatory framework on financial reporting in Malaysia and the apparent absence of discussions on risks in earlier reporting regulations, it is expected that there is no requirement on risk reporting within the most recent financial reporting standards and thus there will be minimal, if any, risk reporting in the financial statements. Nevertheless, despite the absence of a mandatory requirement, the researcher expects to find some degree of voluntary risk reporting in the notes to the accounts, due to their explanatory nature. At the same time, the researcher will also explore the statement of affairs of the organisations, as they may have reported some risk in that section.

Therefore, the second hypothesis emphasizes on the risk rationality of the organisation which forms the basis for its risk perception and the impact on risk reporting in the Annual Financial Statements:

> H_2: The alignment of the organisation's risk rationality with the rule enforcer's risk rationality in each arena will determine the risk reporting practises.

3. The third objective is to explore the risk reporting of each organisation in the media, investigating whether risks have been socially and selectively amplified. It will involve exploring the different policy systems within the social arena of each case organisation (Renn 1992c):

a. What are the different policy systems that exist in the social arena of the case organisations and have an interest in the case organisations?
b. What are the roles of the different policy systems in the arena?
c. Why are the different policy systems interested in the case organisations?
d. What are the risk rationalities of the different policy systems?
e. How do they interact with each other and with the case organisations?
f. What degree of control does one policy system have over one another and on the case organisations?
g. What information do they expect from the case organisations?
h. Which categories of risks have been reported?
i. According to the risk categories, how frequently have each been reported in the media during the years 1996 to 2003?

The third research objective is different from the second research objective which emphasized on the risk reporting required by law. The third research objective emphasizes the risk reporting in the media, whether originating from the case organisations or other policy systems within the social arena and the reporting gap between the different policy systems.

The third research objective necessitates the exploration of the different policy systems within the social arena to understand the risk reporting within the arena. This involves dividing the policy systems into actors, the potential and current stakeholders, the general public, the rule enforcers, the issue amplifiers, the social groups and the political institutions (Renn 1992c). The research identifies the risk rationality which the policy systems are most likely to have. This identification is based on their role in the arena and in accordance to cultural theory (Thompson, Ellis & Wildavsky 1990). For instance, the issue amplifier may see risk reporting as a profit-making opportunity; publishing information to raise the interest of the audience would promote sales. Social groups within the arena may use the media to their own advantage, amplifying issues for their cause. Political institutions may amplify an issue for political motives to assist their party secure votes in the election. These different motives will have different implications on the different policy systems within the arena of each case organisation, which could impact on the organisation's policy making. This research will also try to explore the hierarchy of control within the social arena as well as determine what information is expected from the case organisations.

Considering the situation in which value-based statutory organisations have to comply with the progressively economically-based financial reporting regulations, there are bound to be areas deemed important according to the values of interested quarters which were left out of the financial statements. As such, the interested quarters will have to resort to other means of securing the required information. In this context, the media, represented by the printed media, i.e. the newspapers, monthly news bulletins, pamphlets, lamp post banners; and soft media, i.e. the internet; plays the role of information communicator and issue amplifier in the social arena of the case organisations, mediating between the sources of information, for example, the case organisations or actors such as experts in the field; and the receiver of information such as the stakeholders, for example the contributors; and the general public. This sender-receiver roles change each time a receiver sends back a question to the source.

This leads to the third hypothesis:

> H_3 : The alignment of the case organisation's risk rationality with the risk rationality of all the different policy systems within the social arena will determine the nature and extent of the risk reporting gap.

4. The fourth objective is to explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations.
    a. What are the reasons for the application of the economic-based regulatory mechanism?
    b. What are the reporting requirements of the value-based organisation?
    c. Are these reporting requirements satisfied by the economic-based regulatory mechanism?

From the beginning of reporting regulation for statutory organisations in Malaysia, there has been only one framework. Over the years, the basis for this mechanism has progressively shifted from value-based to economic-based. The framework gave specific guidelines on how the financial statements should be disclosed. The gradual shift in emphasis has seen an 'accountingisation' of some value-based organisations whilst, on the other hand, organisations which are economic-based adopt the framework quite well. Due to 'accountingisation' in the value-based organisation, there have been more media reporting by different policy systems highlighting the shift in emphasis from value-based to economic-based. The findings showed that there was risk reporting within the arena in different risk categories. The risk reporting was done by policy systems such as the users of the financial statements, and also by the value-based organisation. It showed that the value-based organisation did not do Islamic financial reporting (Baydoun & Willet 2000; Maali, Casson & Napier 2006).

Thus, the fourth hypothesis states:

> H_4 : If value-based organisations have to comply with the requirements of the economic-based reporting regulations, then there will be a risk information gap which will be evident by a higher amount of alternative reporting by the policy systems within the arena in the media.

Even though cultural theory can be used to explain the organisations' risk reporting behaviour in terms of their rationalities, the social arena metaphor allows additional insights into the larger scenario. The analysis chapter will reflect on this larger scenario, i.e. the action and reaction of different policy systems in the social arena within which the organisations operate, and how the different policy systems may have influenced the organisations' risk reporting actions. Specifically, this involves firstly, identifying the action and reaction of the different policy systems within the arena. Secondly, observing how have the different policy systems influenced the organisations' risk reporting actions. Thirdly, exploring if there is a possibility of complacency in the case organisations created due to the same people performing the same tasks over several years. Finally, considering the fact that one organisation has had several changes in management, frequently been subjected to and has to answer to public scrutiny whilst the other has had the same individuals in its governance and not had much experience of scrutiny over the same time period, to explore if there is the slightest possibility of fraud, in which organisation will it be most likely to happen?

This research will use the social arena metaphor (Renn 1992c) to investigate the impact of those external factors. Given an organisation which has always been under public scrutiny, it will have learnt from previous experiences and would have installed controls to avoid the same incidents recurring. It has experienced advanced technological changes to its previous manual recording systems incorporating computerisation, online deposits and online linkages between the head office and branches across the nation. It has experienced the downside of technology, for example, failed online connections, when the system was shut down and no access was available to depositors' accounts, bringing operations to a standstill. The Pilgrims Fund is susceptible to technological threats and knows that it should not depend on others for its internal control security and should set up systems to improve its internal control procedures. On the other hand, the Armed Forces Fund has basically relied on the integrity of records from the Ministry of Defence which has been dispatched daily from the Ministry to update information on any new or retiring contributors to the Armed Forces Fund. The absence of the need for online transactions between the Armed Forces Fund and the Ministry of Defence has substantially reduced the possibility of its records being hacked. If the two case organisations should switch places, it seems that the Armed Forces Fund may not have fared as well as it does in its present environment.

Having discussed the research objectives, the next section will briefly discuss the research methods. A more comprehensive discussion of research methods will be given in Chapter Three.

Research methods

This research will make risk rationalities in a given context partially visible for contemplation such that the behaviours resulting from the risk rationalities can be understood and attended to in a more appropriate way. Therefore, a range of evidence needs to be employed. This range of evidence will be collected using case study research through interviews, questionnaires and documentation reviews.

In this study the second, third and fourth research objectives and hypotheses involve an exploration of the Annual Financial Statements, the media and the reporting regulations for the case organisations which require an objective-quantitative approach. The first, the second and the third research objectives and hypotheses involve an exploration of the risk rationality within the organisations and an insight into the environment in which the statutory organisations and the different policy systems operate, requiring a subjective-qualitative approach. The second and third research objectives and hypotheses therefore involve both quantitative and qualitative approaches.

Although there is an emphasis on objectivity, where the frequency of different categories of risk reports are determined and compliance to the expected disclosures tested, the actual placement of quantitative values may irritate proponents of the subjective view. The consolidation of the objective-quantitative approach to the subjective-qualitative approach requires an appreciation of the individuals' perception. There is an awareness that although the actual risk resulting from a decision made within the case organisations is similar to the risk resulting from a decision made by a policy system within the social arena of the organisation, depending on their subjective perception of value-based and economic-based risks, the resulting action by the different policy systems may be different. For example, the decision to list a subsidiary made by the Pilgrims Fund met with opposition from contributors, members of Parliament and an economic analyst; but when the same decision was suggested by the Prime Minister adding that the matter should not be discussed further, there seems to be no further reporting on the issue.

To appreciate the different risk rationalities in cultural theory (Thompson, Ellis & Wildavsky 1990), it is the intention of this research to use the two contrasting statutory organisations as case studies, involving interviews, questionnaires and review of documentation sourced from the organisations and from the media. The findings of this research will be specific to the case organisations and will not be generalised to other organisations. Sampling limitations are therefore taken as real.

The above section discussed the research methods whilst the following section will state the contribution of the research to knowledge.

Contribution to knowledge

The first contribution of this research is to illustrate the application of cultural theory through a traditional empirical study, i.e. that risk rationality results in risk perception which relates to the risk reporting behaviour of the case organisations. In terms of accounting research, the research findings show that as per cultural theory the case organisation with different rationalities internally, operating in an environment with different dominant rationalities will face issues in its operations since they require additional risk management and reporting systems, whilst the case organisation with the same internal rationality, operating in an environment with similar risk rationality will operate well.

Secondly, through the third and fourth research hypotheses, the contribution to knowledge is an adaptation of the social arena metaphor to explain the environment in which the case organisations operate. Although cultural theory explains the risk reporting of the organisation with respect to its risk rationality and the risk rationality of the different policy systems within the social arena quite well, the relationship of the organisation with others within its environment is perhaps better explained by the social arena metaphor. Therefore, the contribution of this research to policy makers and regulators is the application of the metaphor, i.e. explaining the inter-relationship between the different policy systems within the arena of each case organisation, such that perhaps, at a future point in time, the findings may form a basis to the case organisations' reporting rules and regulations which are specifically attuned for each organisation in their individual incorporating Act, be it value-based or economic-based.

Thirdly, this research integrates both internal and external aspects of the intra-cultural case organisations and thus the contribution to accounting research covers both inter-relationship within the case organisations and the relationship between the case organisations and external parties. The research on the risk perception of individuals within the organisations and their risk reporting investigates what is happening within the organisations. The discussion of the different policy systems within the environment in which the organisations operate explores its external arena. Together they provide the researcher a wider understanding of the risk perception, risk reporting, cultural theory and the social arena metaphor.

The following paragraphs will firstly discuss the extension of the cultural theory, secondly the extension of the social arena metaphor and thirdly the integration of both the internal and external studies.

With reference to the first contribution, cultural theory argues "that people, by their interactions, organize themselves into these five clumps" (Thompson, Ellis & Wildavsky 1990, p. 13). The five clumps are hierarchists, individualists, egalitarians, fatalists and hermits.

> "What is rational depends on the social or institutional setting within which the act is embedded. Acts that are rational from the perspective of one way of life may be the height of irrationality from the perspective of a competing way of life." (*Ibid.*, p 23).

Thus, an organisation where its internal divisions have different risk rationalities will face operational issues. Similarly, the organisation which has different risk rationality from other systems in its environment will have interacting issues. On the other hand, organisations which have uniform risk rationality, operating in an environment with similar risk rationality should perform.

Although cultural theory illustrates risk rationality, its impact on risk perception and thus on risk reporting, it does not offer a coherent framework or approach for rectifying issues, i. e. whether for the short or long term, within the environment in which the organisations operate. Changes to risk perception, which involves changing of the population's beliefs, if willed by the government, will need time, for example, through education; and will take at least a generation to be effective. Due to the lack of a framework within cultural theory to rectify the issues of the organisation with varied risk perceptions, as a temporary measure to improve the uniformity of risk reporting, the government has to resort to other means, for example, by imposing new, more comprehensive regulations.

With respect to the second contribution, the social arena metaphor is applied to the statutory organisations in the context of their environment, i.e. the relationship of the organisation to the different policy systems. Within a social arena, the different policy systems are mobilized, i.e. individuals shift alliances depending on changes to their circumstances, similar to the idea of multiple lives (Thompson, Ellis & Wildavsky 1990). A person may assume the role of a hierarchist when working in the office but assume the role of an egalitarian when discussing issues on land conservation at a conservationists meeting. The composition of parties within the arena may change from one arena to another. Parallel to this, the amount of interaction between the different policy systems within each arena may also differ. An interesting point to note is that, viewing the case organisations from the social arena metaphor provides additional insights that could be gained by the extension of cultural theory to different parties in the arena.

With respect to the third contribution, the internal perspective shows a better picture of the relationship between the risk perception of the people within the organisations to the risk reporting by the organisations; and the external perspective gives a discussion of the interrelationship between the different policy systems within the environment in which the organisations operate. It also shows the applicability of the cultural theory to the interaction process between the case organisations and the different policy systems within their arena. In this sense, the application of cultural theory could help explain the action and reaction of the different policy systems in the social arena, giving a better interpretation of the risk reporting by the case organisations whilst the application of the social arena metaphor interprets the risk reporting within each organisation's social arena.

The above section discussed the contribution of the research to knowledge. The next section will discuss the layout of the thesis.

Structure of the thesis

Chapter One introduces the thesis and states the motivation, gives a detailed account of the research objectives, research questions and research hypotheses, a brief account of the research methods, states the contribution to knowledge and the structure of the thesis.

Chapter Two reviews the literature and develops the theory underpinning this research. It is divided into three main sections, namely the stewardship-accounting role of management, 'accountingisation' and risk; risk perception, including a discussion of cultural theory and the social arena metaphor; and risk reporting. The first section discusses the management's responsibility for risk reporting, including preparing accounts for the owners, the second section examines amongst others, the definition of risk, the objective and subjective schools of thought, some major sociological perspectives on risks, the definition of culture, studies on culture and discusses risk and culture. The third section explores the risk reporting literature, divided into accounting disclosure and information communication.

Chapter Three involves an introduction to the research ontology, epistemology, methodology and goes on to explain the research methods, limitations to the research and how the data was analysed. The research methods cover the issues on the research methods, the choice of cases, the years chosen for the Annual Financial Statements, the problems of accessibility, control and the secrecy oath, the consent to research and the different research methods, i.e. interviews, questionnaires and documentation review. The section on data analysis describes how the research findings were analysed, for example, how to determine the respondents' risk rationality according to cultural theory as proposed by Douglas (1966) and developed by Schwarz and Thompson (1990) and Thompson, Ellis and Wildavsky (1990). The data analysis section includes the decision rules on risk disclosure within the media. It also presents the expected disclosures adapted according to the Islamic disclosure requirements as per Maali, Casson and Napier (2006).

In accordance with the first and second research objectives, Chapters Four and Five present the empirical findings within the case organisations. Chapter Four starts with a general introduction to statutory bodies including a disclosure on changes in reporting regulations and then gives a more detailed explanation of the first case organisation, the Pilgrims Fund. The explanation includes firstly, a discussion on the changes to the incorporating regulations of one of the case organisations, impacting on values and secondly a discussion on the changes in management, with respect to the background and the tenure of the management. As per the first objective, these chapters explore on the risk perceptions of the individuals within the organisations through the findings of the interviews and the questionnaires in relation to the cultural theory, i.e. through inter-departmental meetings; visual representations of internal communication documentation and enforcement of the internal communication rules and procedures. In accordance with the second objective, it then discusses the risk reporting of the organisation, where a major part of the findings were sourced from items made available by the organisations to the researcher, especially for documentation review, for example, copies of the Annual Financial Statement. Chapter Five presents the empirical findings on the Armed Forces Fund in a similar structure to Chapter Four.

In accordance with the third and fourth objectives, Chapter Six firstly illustrates the social arena within which each case organisation operates, the constituent different policy systems within the arena, their respective roles in the arena and the inter-relationship between the different policy systems; and the hierarchy of control; as well as the relationship between the different policy systems with the case organisation. These policy systems vary from one case organisation to the other. For the Pilgrims Fund, these include the Minister-in-charge of the Pilgrims Fund, the board of directors, the management, the potential and existing contributors, the founding father, the experts, the government, the general public, the Auditor-General, the Public Accounts Committee, the pro-government newspaper, the members of the opposition party and the pro-opposition party newspaper. For the Armed Forces Fund, these are the Minister of Defence, the board of directors, the management, the experts, the potential, existing and ex-contributors and their family, the government, the general public, the Auditor-General and the Public Accounts Committee. Findings from Chapter Six would also give a significant contribution to the analysis chapter, Chapter Seven.

In accordance with the third objective, Chapter Six emphasizes on the risk reporting of the organisations in terms of their media representations in the arena, especially the categorization of reported risks according to the risk category framework (Institute of Chartered Accountants in England and Wales (ICAEW) 1998) and the frequency of reporting. Information was secured through means such as the free newspaper archives and individual web sites on the internet. Similar to the findings on risk reporting in the Annual Financial Statements in the Chapters Four and Five, this discussion on risk reporting also explores the categories of risk presented and the source of the information.

Chapter Six also explores the fourth hypothesis, i.e. that the application of one economic-based regulatory mechanism for all, (economic-based framework on value-based organisations), will not satisfy the information needs of the users. It expands on how the different policy systems may have influenced the risk reporting by the case organisation, and if there is any other alternative to remedy the situation (Baydoun & Willet 2000), for example, by producing supplementary information. It also explores if the amplification by the different policy systems within the environment affects the policy making and reporting of the organisation, i.e. an application of the arena metaphor to the study.

Chapter Seven presents the analysis of the empirical findings based on the literature review. It is divided into three sections similar to the sections in the literature review. The analysis shows that the case organisation which has operational issues due to having different risk rationalities i.e. the Pilgrims Fund; did not have much alternative but to abide by the mandatory rules imposed on them. However, due to the ambiguity of the reporting regulations, the way in which their reporting was done was such that the longitudinal comparability between the statements was seriously impaired. Surprisingly, the statements were given clean audit reports. This is apparently due to the inclination of the regulations towards economic-based reporting, where the organisation was supposed to show how much profits were made during the financial year, not what reporting was required according to the values of the different policy systems within the arena. Consequently, through social amplification, the different policy systems requested further information through the media, which was also the means used by the Pilgrims Fund to reply. Apparently it seems that there was a gap where the economic-based reporting regulatory requirements did not quite satisfy the value-based reporting needs therefore the need for alternative reporting. There also seems to be a rippling effect, since the media amplification brought the matter to the attention of higher authority that in turn compelled one case organisation, the Pilgrims Fund, to comply with requests. On the other hand, the other case organisation, the Armed Forces Fund did not seem to have any issues in abiding with reporting rules and their contributors seem contented with the comparatively high annual yield.

There seem to be harmony when the reporting regulations and the requirements of the contributors were similarly economic-based, which is in accordance with cultural theory, but, on the other hand is notably strange, because, the contributors to the Armed Forces Fund, being in the same cultural group in terms of ethnicity and religion as contributors to the Pilgrims Fund, would be expected to retain the same cultural values as that of the contributors to the Pilgrims Fund, for example, to demand a value-based reporting. It seems that the values that are expected to apply within the cultural community from which the majority of the contributors to both the Pilgrims Fund and Armed Forces Fund originated are practiced to different extents within the different social arenas of the case organisations having different objectives, i.e. the contributors within the Pilgrims Funds apparently are demanding more value-based reporting whilst contributors within the Armed Forces Fund seem content with the high economic returns and apparently leave the religious aspect of the income derivation to the fund managers.

Chapter Eight gives the conclusion for the research and provides suggestions for future research. The findings and analysis propose a strong connectivity to cultural theory and the social arena metaphor. Individuals with the same risk perception work well within an organisation operating in an arena where the stakeholders and the actors have the same attitude, whilst an organisation with individuals of different risk perceptions in a multi-risk rationality environment, face risk management issues. This environment affects the manner in which risk reporting was done by the organisations. The Pilgrims Fund seems to have complied with regulations but closer scrutiny shows that comparability was seriously impaired through usage of different terminologies and the reclassification of items within the financial statements of consecutive years. On the other hand, the Armed Forces Fund has shown considerably uniform reporting throughout the period studied and only made changes to comply with the regulatory requirements over the period.

In terms of future research, it would be interesting to study organisations where the individuals have a different risk perception to that perceived of the organisation, for example, studying failed statutory bodies, such as the Subang Golf Club, i.e. how they managed to be in existence for a period of over thirty years and why their Annual Financial Statements have never been prepared since incorporation.

Another possibility is to do similar research in organisations with different cultural background or in a different country, i.e. an inter-cultural study of the different risk rationality, how it affects risk perception within the organisation and how risk perception may affect the operations of the organisation within its environment.

It is also interesting to do a comparative study on Malaysian and British organisations where the individuals have similar very strong value-based risk perception to that perceived of the organisation but where the regulatory requirement has another perspective, for example, studying the economic-based 'accountingisation' of the value-based National Health Service (NHS) (for example, see Broadbent & Laughlin 1998; Hill, Fraser & Cotton 2001 and Lapsley 2007) and similar private health companies in Malaysia.

Another area for future research is to identify factors influencing the mobility of the parties within the social arena. An insight into these factors will enable the organisations to prepare for future courses of action. It will also be interesting to explore what might happen if the organisations work in a different social arena setting – would they be able to perform better or will they be worse off? For example, would the organisation i.e. Pilgrims Fund, have acted differently if it was put in the other's i.e. Armed Forces Fund's social arena? Then, would the cultural theory still hold true?

Summary

This chapter introduces the thesis. The motivation to do this research is due to the fact that the researcher is a contributing member to the Pilgrims Fund; one of the two case organisations. The researcher is aware of the fact that the Pilgrims Fund has managed to secure media and public interests for both positive and negative reasons as opposed to the other organisation which seems to be performing well.

There are four research objectives and research hypotheses, exploring risk perceptions within the organisations; exploring the organisations' risk reporting through both regulatory reporting channel and the media amplification and exploring the application of a blanket economic-based reporting regulation on the case organisations. The analysis chapter will also reflect on the findings of the environment external to the organisations.

The discussion on research objectives and hypotheses was deliberately made at length as it forms a crucial framework to the thesis and is regarded necessary at this stage. This is followed by a brief summary on the research methods which will be explained in greater detail in Chapter Three. There are three contributions to knowledge, firstly being an extension of the cultural theory to the intra-cultural environment of the organisation, secondly an extension of the social arena metaphor to the environment in which the organisations operate and an integration of both the internal and external scenario to provide an interpretation for risk reporting.

Then this chapter discusses the structure of the thesis which briefly summarises the rest of the thesis. The chapter ends with Table 1 which shows a summary of the research objectives, research questions and hypotheses. The following chapter will give a review on the literature.

Table 1: Research objectives, research questions and hypotheses

1	Research objective:	To identify the risk perception of the organisations and that of the individuals within.
	Research questions:	a. Which rationality do the organisations belong to as per their stated incorporation objectives? b. What is/are the rationality/rationalities of the people within the organisations? c. Based on their risk rationalities how do they perceive risks?
	Research hypothesis:	If the risk rationality of the organisation and the individuals within it is similar, then the organisation should work well together.
2	Research objective:	To explore the risk reporting of the organisation in their regulated Annual Financial Statements between the years 1996-2003, i.e. the different risk categories which were disclosed.
	Research questions:	a. What are the rules and regulations on the Annual Financial Statements of the organisations? b. Who imposed them? c. Is there any specification on risk reporting in the rules and regulations? d. Is there any disclosure by the organisations of voluntary compliance to any other reporting rules and regulations? e. What information is given in the regulated Annual Financial Statements? f. Is there any risk reporting in the Annual Report and if there is, in which section is this done? g. What categories of risks have been disclosed?
	Research hypothesis:	The alignment of the organisation's risk rationality with the rule enforcer's risk rationality in each arena will determine the risk reporting practises.

Table 1: Research objectives, research questions and hypotheses (continued)

3	Research objective:	To explore the risk reporting of each organisation in the media, involving exploring the different policy systems within the social arena of each case organisation (Renn 1992c).
	Research questions:	a. What are the different policy systems that exist in the social arena of the case organisations and have an interest in the case organisations? b. What are the roles of the different policy systems in the arena? c. Why are the different policy systems interested in the case organisations? d. What are the risk rationalities of the different policy systems? e. How do they interact with each other and with the case organisations? f. What degree of control does one policy system have over one another and on the case organisations? g. What information do they expect from the case organisations? h. Which categories of risks have been reported? i. According to the risk categories, how frequent have each been reported in the media during the years 1996 to 2003?
	Research hypothesis:	The alignment of the case organisation's risk rationality with the risk rationality of all the different policy systems within the social arena will determine the nature and extent of the risk reporting gap.
4	Research objective:	To explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations.
	Research questions:	a. What are the reasons for the application of the economic-based regulatory mechanism? b. What are the reporting requirements of the value-based organisation? c. Are these reporting requirements satisfied by the economic-based regulatory mechanism?
	Research hypothesis:	If value-based organisations have to comply with the requirements of the economic-based reporting regulations, then there will be a risk information gap which will be evident by a higher amount of alternative reporting by the policy systems within the arena in the media.

CHAPTER 2 LITERATURE REVIEW

Introduction

The previous chapter introduced the research, its motivation, the research objectives, research questions and research hypotheses, the research methods, the contribution to knowledge and the structure of the thesis. Based on the research objectives, research questions and the research hypotheses, this literature review chapter has three main sections. The first section examines the stewardship-accounting role of management, 'accountingisation' and risk, i.e. the evolution of stewardship-accounting role of management; the 'accountingisation' of value-based organisations; value-based versus economic-based research; public sector and risk.

The second section is on risk perception. Risk perceptions are interpretations of actual risk by each individual. In accordance with the first research objective, i.e. to identify the risk perception of the organisations and that of the individuals within, this section gives the definition of risk, introduces the objective versus subjective schools of thought on risks, explains the social arena metaphor of risk debates, discusses some of the major sociological perspectives on risks, cultural theory, the definition of culture, studies on culture, and a discussion on risk and culture.

This section includes a discussion of the social arena metaphor of risk debates (Renn 1992c). It discusses the different policy systems within the arena, their roles, their risk rationality and their relationships within the arena and with the organisation; i.e. exploring how strong these roles, values and relationships are within the social arena and discusses the degree of their impact on the organisations' policy-making. This discussion is crucial due to the fact that the social arena metaphor of risk debates forms one of the two underlying concepts underpinning this research.

The discussion on culture is important because the existence of multiple cultures with different beliefs and experiences within the organisation may result in issues in operations due to the resulting different risk perceptions. As the cultural theory forms the second of the two underlying concepts underpinning this research, it will be applied to the case organisations for the second hypothesis, (i.e. the alignment of the organisation's risk rationality with the rule enforcer's risk rationality in each arena will determine the risk reporting practises); and third research hypothesis, (i.e. the alignment of the case organisation's risk rationality with the risk rationality of all the different policy systems within the social arena will determine the nature and extent of the risk reporting gap); cultural theory will be explained in greater detail compared to the other perspectives.

This section is in line with the third (i.e. the alignment of the case organisation's risk rationality with the risk rationality of all the different policy systems within the social arena will determine the nature and extent of the risk reporting gap) and fourth research hypotheses (i.e. if value-based organisations have to comply with the requirements of the economic-based reporting regulations, then there will be a risk information gap which will be evident by a higher amount of alternative reporting by the policy systems within the arena in the media).

In line with the second and third hypotheses, the third section is on risk reporting, which is further divided into accounting disclosure and information communication. Accounting disclosure focuses on risk disclosure, accountability, transparency and regulations of disclosure; and disclosure and culture. Information communication focuses on internal communication, external communication and mass media influence on the information communicated. The chapter ends giving some thoughts on the literature review and this research.

Stewardship-accounting role of management, 'accountingisation' and risk

Evolution of stewardship-accounting role of management

The stewardship-accounting role of management has significantly advanced from the early days when guardians recorded information on increases or decreases in the owner's wealth, through modifications in recording methods, for example by the introduction of the double-entry bookkeeping method, and later the application of professional reporting rules. The recording of accounting information facilitated reporting and in search of comparability and uniformity of accounting reports, rules were developed, incorporating several concepts and conventions, including the use of the monetary measurement concept. This concept puts a value on all gains and losses, and in a way permitted the calculation of risks.

Although the monetary measurement concept provided a means to calculate risks, financial reports still had limitations on reporting risks. This awareness led to studies of risk disclosure requirements (ICAEW 1998, 1999 & 2002a). At the same time, surveys on institutional investors showed a strong demand for better corporate risk disclosure to improve investment decisions (Solomon, Solomon, Norton & Joseph 2000). Discussions on general risk management policy and lack of coherence in the risk narratives (Beretta & Bozzolan 2004; Linsley & Shrives 2006) implied that there was a risk information gap which existed, which consequently made it very difficult for stakeholders to assess the risk profile of a company.

'Accountingisation' of value-based organisations

There was also an awareness of the 'accountingisation' (Power & Laughlin 1992; Broadbent & Laughlin 1997; Power 1997; Hood 1998; Lapsley 1998; Thomson & Veitch 2000; Power, Laughlin & Cooper 2003) of value-based services; i.e. a tendency to 'steer the organisation into a new form of behaviour' (Broadbent & Laughlin 2005, p. 19) thus imposing accounting rather than appreciating values of the organisation. It seems that organisations formed with value-based objectives such as helping people are gradually pushed towards complying with accounting rules and regulations such that they apparently seems to be both economic-based and profit-oriented; deviating from their original purposes of existence.

'Accountingisation' can therefore be defined as an act of steering the value-based organisation into a new form of behaviour by gradually increasing the influence of professional accounting on the organisation (Power & Laughlin 1992; Broadbent & Laughlin 1997; Power 1997; Lapsley 1998; Thomson & Veitch 2000; Power, Laughlin & Cooper 2003). The second phase of new public management is partly described by 'accountingisation' because of the introduction of new tools of accrual accounting and audit, besides 'market bureaucratisation' because of the emphasis on competition and privatisation, and 'contractualisation' because of the reliance on specified individual, unit and institutional *performance* for which people are held accountable (Thomson 1999).

This 'accountingisation' may be due to the fact that value-based organisations are subjected to a higher degree of risks compared to their profit-based counterparts. In terms of reporting, the more they proposed to be value-based, the more they are scrutinised. For example, there was considerable media interest when the Body Shop which propagated animal rights was sold to a company which admitted testing its products on animals[4]. The following section discusses the issue in more detail.

Value-based versus economic-based research

The second phase of new public management is partly described by 'accountingisation' because of the introduction of new tools of accrual accounting and audit (Thomson 1999). This stems from the need to measure performance of the public sector's stewardship which is interpreted in monetary terms by the performance indicators. This measure is justified in cases where the organisation is economic-based, i.e. profit-oriented and emphasises profit making or the generation of income for the benefit of the stakeholders. However, it contradicts the value-based aspirations of the stakeholders in some value-based organisations since accounting which applies the money measurement concept is used as an indicator of performance (Laughlin & Broadbent 1991; Lapsley 1998; Lapsley 2007).

In some value-based organisations, monetary gain is not the main motive for investment by the stakeholders. The stakeholders may champion other values such as religion, humanity (Broadbent & Laughlin 1998) and trust (Lapsley 2007). Economic-based organisations place emphasis on monetary measurement to justify profitability of the organisation without emphasising these other values. Value-based organisations, on the other hand, renders values on items that they believe cannot be

[4] The extent to which the Body shop proposed not to have tested its products on animals are questioned in www.jonentine.com/reviews/Body_Shop_Roddick_audit.doc. L'Oreal has admitted to testing new products on animals; see http://www.indiescribe.com/news/index.html In contrast to the principles held by The Body Shop, L'Oréal has been criticised for animal testing by animal rights charity PETA, although it says it stopped animal testing for its entire range of cosmetics in 1989 but it is compelled by European law to test some products on animals. *Brand Republic*; see http://www.bandt.com.au/news/46/0c03e646.asp 17/10/2007

purchased by money, for example, life in the hereafter. This differing basis in measuring performance led to contrasting views of yardstick applicability (Laughlin & Broadbent 1991).

Before examining risk perception in greater depth, the next section will explore the public sector and risk.

Public sector and risk

Awareness of the lack of a theoretical background to public sector research activity is raised when it is stated by Lapsley (1988) that perhaps the most distinctive aspect of research activity is the absence of a theoretical background which provides a framework for the development of accounting principles and practices in the public sector.

Although government accounting has its roots in ancient times, it had been ignored by academics and practitioners alike (Pallot 1992). She addressed the issue of the conceptual framework for public sector accounting although later it is stated that the aim of conceptual framework has proved elusive (Lapsley 2005). The ignorance has formed a gap within the literature which has, over the past two decades, seen more efforts to discuss issues in public sector accounting (see for instance, Degeling, Guthrie & Anderson 1988; Lapsley 1991; Laughlin & Broadbent 1991; Gray & Jenkins 1991; Broadbent & Guthrie 1992); accountability (Humphrey, Miller & Scapens 1993; Gray & Jenkins 1993; Broadbent, Dietrich & Laughlin 1996; Parker & Gould 1999; White & Hollingsworth 1999) and transparency (Gray, Dey, Owen, Evans & Zadek 1997; McIvor, McHugh & Cadden 2002).

The public sector has gradually accommodated an increasing amount of influence of professional accounting labelled as "accountingisation" of the public sector as mentioned above leading stakeholders to secure needed information through social amplification means such as the media (Kasperson 1992, Renn 1992c; Kasperson, Kasperson, Pidgeon & Slovic 2003). There is apparently an absence of mandatory risk reporting regulation in the public sector (See the discussion on risk reporting later in this chapter). Any form of risk reporting will therefore be considered as voluntary.

It is reported that Australian Accounting Standards are applied to the public sector in Australia in adopting accruals accounting (Barton 2005), but the reason given for their application to the public sector is questionable, since the operations of the two sectors are different. He suggested that accounting standards must be tailored to suit the specific information needs of each sector, in order to provide relevant information.

He showed where changes are needed in the four accounting concepts statements and the broad requirements of Australian Accounting Standards (AAS) 29 and AAS 31 to provide more relevant information to the public sector. He stated that this would better enable accrual accounting information systems to assist in promoting the efficiency and effectiveness of public sector operations and the accountability of governments to parliament and citizens.

In Malaysia, the onus of disclosure is required by law of the Senior Officer in Charge of each statutory body's Financial Management, who is required to declare according to the Statutory Declaration Act 1960, that the financial statements have been prepared in an accurate manner and that the accounts are true. The Chairman, together with one other member of the board of directors are also required to certify that to the best of their knowledge, the Annual Financial Statements have been prepared to represent a true and fair view on the affairs of the organisation.

Accountability was defined as "identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information." Its function is to "to require individuals and organisations to present an account of those actions for which society holds them – or would wish to hold them – responsible." (Gray 2001, pp. 9-11). Public accountability is defined as the act of giving public account that is shared by all members of the community and to which no one should be intentionally denied access (Fuchs 1986, p. 110). Perhaps the definition that best suits accountability of the public sector in monetary terms is where policy makers can and will be held to account for the economic performance of the targets in their care, i.e. policy makers will be held responsible for how close the indicators of economic performance come to the target values set (Demertzis, Hallet & Viegi 1998).

Transparency is a very important element of accountability (de Haan, Amtenbrink & Eijffinger 1998). Corporate transparency has been defined as "the availability of firm-specific information to those outside publicly traded firms." (Bushman, Piotroski & Smith 2004, p. 207). They conceptualized corporate transparency as the output from a multifaceted system where the components of the system produce, gather, validate and disseminate information; and categorised transparency into financial transparency and governance transparency.

Financial transparency covers the intensity and timeliness of financial disclosures and their interpretation and dissemination by interested parties and the media. Governance transparency covers governance disclosures for external investors and holds management responsible. It is found that governance transparency is higher in countries with a common law legal origin and high judicial efficiency whilst financial transparency is higher in countries with low state ownership of enterprises, banks and low risk of state exploitation of organisation's wealth (Bushman, Piotroski & Smith 2004). Transparency means that the information is made public (De Bruijn 2002). The public sector reporting can be said to be transparent when it is explained and published for distribution to the degree that satisfies the requirements of the interested parties.

The above section discussed the public sector and risk. Before examining risk reporting in greater depth, the next section will explore the different perceptions of risk.

Risk perception

Perceived risk is defined as, "the combined evaluation that is made by an individual, of the likelihood of an adverse event occurring in the future and its likely consequence (Royal Society for the prevention of accidents 1983, p. 94)."

Many different factors affect risk perception, for example, the outcome of previous decisions, aspiration levels, trust, expectations, and loss functions for outcomes that deviate from expectations (Weber & Hsee 1998, p. 1215). The four key dimensions of trust are perceptions of commitment, competence, caring and predictability. Distrust often arises from violations of expectations that people have in social relations (Kasperson, Golding & Tuler 1992, p. 161). Adams 1995, p. 180 stated:

> The way people deal with something is influenced by the way they perceive it, and the act of dealing with it alters it...risk perceived is risk acted upon. It changes in the twinkling of an eye as the eye lights upon it...the cultural filters through which we perceive risks are formed in our experience of dealing with it. Thus, *the perception of the probability and magnitude of some future adverse event* is shaped by our previous experience, and undergoes continuous modification as we act upon the perception.

For example, when a policy is based on average calculations the individual who will face a greater hazard than the average individual as a consequence of that policy should be allowed to object it. Some crucial factors such as the individual's lifestyle and anecdotal knowledge may determine to what extent he will be exposed to a specific risk, even though this information may not be available to the scientists. Together, subjective risk analyses complement the objective quantification of risk analyses by covering other areas of risk (Renn 1992a, pp. 60-61).

Surveys and experiments have revealed that perception of risks is influenced by a series of perceived properties of the risk source or the risk situation (Slovic, Fischhoff & Lichtenstein 1981, in Renn 1992a, p. 65; Johnson & Tversky 1984). Among the most influential factors are the perception of dread with respect to the possible consequences; the conviction of having personal control over the magnitude or probability of the risk; the familiarity with the risk; the perception of equitable sharing of both benefits and risks; and the potential to blame a person or institution responsible for the creation of a risky situation (Renn 1992a, p. 65).

This section will be divided into seven subsections. The first subsection discusses the definition of risk, the second examines objective versus subjective views of risk, the third introduces Renn's (1992c) social arena metaphor of risk debates, the fourth states some major sociological perspectives of risks, the fifth discusses the definition of culture, the sixth discusses studies on culture and the seventh explains risk and culture. Due to its relevance to this study, the social arena metaphor of risk debates and the cultural theory will be explained in greater detail as it will form a basis for the analysis in this research.

Definition of risk

Risk has been variously defined (Lowrance 1979, p. 5; Royal Society for the prevention of accidents 1983, p. 22; Adams 1995, p. 180; Encarta world English dictionary 1999, p. 161). Most of these definitions centre on the probability of an adverse event. Risk is not something that is known prior to it happening but could be estimated. The technical concept of risk focuses on the probability of events and the magnitude of the consequences and defined risk as the multiplication of the two terms, i.e. probability of events and the magnitude of the consequences; with the assumption that society is indifferent toward low-consequence/high-probability hazards and high-consequence/low-probability hazards (Kasperson 1992, p. 155).

Bernstein (1996) stated that the word "risk" derives from the early Italian *risicare,* which means "to dare". He gave a very detailed account of thinkers such as Luca Paccioli who have tried to initiate the quantification of risk using his *balla* problem in the *Summa de arithmetic, geometria et proportionalita* (*Ibid.*, p. 42), Pascal and de Fermat in 1654 (*Ibid.*, p. 3) on the theory of probability, Bernoulli's concept of *risk-taker* as 'the player who chooses how much to bet or whether to bet at all' in 1738 (*Ibid.*, pp. 99 and 106), Laplace's Central Limit Theorem in 1809 (*Ibid.*, p. 143), up to the mathematical demonstration of why putting all one's eggs in one basket is an unacceptably risky strategy (Markowitz 1991, p. 6). However, despite his account of the quantitative ways in which risk has been determined, Bernstein agreed that, "Different people have different information; each of us tends to colour the information we have in our own fashion. Even the most rational among us will often disagree about what the facts mean." (*Ibid.*, p. 111). On the topic of risk aversiveness, Bernstein stated, "Different people, however, are risk-averse in different degrees." (*Ibid.*, p. 113).

Others (see National Research Council 1983; Fischhoff, Watson & Hope 1984; and Luhmann 1990, in Renn 1992a, p. 56) stated that provided the distinction between reality and possibility is accepted, the term *risk* denotes the possibility that an undesirable state of reality (adverse effects) may occur as a result of natural events or human activities. It includes the analysis of cause-effect relationships, which may be scientific, anecdotal, religious, or magical (Douglas 1966); but it also carries the implicit message to reduce undesirable effects through appropriate modification of the causes, or though less desirable, mitigation of the consequences. Further, it was stated that, "The definition of risk contains three elements: undesirable outcomes, possibility of occurrence, and state of reality. All risk perspectives provide different conceptualizations of these three elements (Renn 1992a, p. 56)."

On the reports produced by the British Royal Society for the prevention of accidents (1983), two main classifications of risks are highlighted; objective risk, i.e. "the sort of thing "the experts" know about." and subjective risks, i.e. "the lay person's often very different anticipation of future events (Adams 1995, p. 7)."

On the other hand, proponents of the 'subjective' definition of risk often question both the determination of the probability of the future event and how the degree of utility is derived (Hoos 1980; Mazur 1985; Douglas 1986; Freudenburg 1988; Clarke 1989; Meyer-Abich 1989). Risks are considered 'subjective' when risk perception or anticipation by a person of a future event is crucial in deciding what, to the individual, is risk (Adams 1995). Risks change through time, owing to circumstances, for example, recruitment of new employees, introduction of new technology or business restructuring and expansion. There are different types of risks, such as unintentional errors, deliberate errors, unintentional losses of assets, theft of assets, breaches of security and acts of violence or natural disaster. Risk exposure may arise from a variety of internal and external sources, such as employees, members, criminals and acts of nature; and is affected by the frequency of occurrence, the vulnerability of occurrence, and the size of occurrence (Wilkinson, Cerullo, Raval & WongOnWing 1999, pp. 243-245).

However, Power 2004, pp. 13-14, perhaps summed up the idea when he stated, "the question 'what is risk?' is less important than the question: 'how do we know risk and what are the social and economic institutions which embody that knowledge?'

The above section gave some definitions of risk whilst the following section will expand the discussion on objective and subjective views of risks.

Objective versus subjective views of risk

There have been many prominent writers on risks such as Thompson 1979; Schwing and Albers 1980; Douglas and Wildavsky 1982; Fischhoff, Watson and Hope 1984; Schwarz and Thompson 1990; Beck 1992; Krimsky and Golding 1992; Adams 1995; Bernstein 1996; and Slovic 2000. The topic of discussion varied on issues such as risk acceptability (Fischhoff, Lichtenstein, Slovic, Derby & Keeney 1981; Douglas 1986), risk assessment (National Research Council 1983; Royal Society for the prevention of accidents 1983); risk communication (Rohrmann 1990; Fisher, Pavlova & Covello 1991; Linsley & Shrives 2000, 2005, 2006; Cabedo & Tirado 2004; Beretta & Bozzolan 2004), risk compensation (Wilde 1976); risk evaluation (Evans & Wasielewski 1983; Hambly & Hambly 1994), risk management (Spira & Page 2003; Knechel & Willekens 2006), risk perception [Kasper 1980; Slovic, Fischhoff & Lichtenstein 1981; Royal Society for the prevention of accidents 1981; Johnson & Tversky 1984; Weber & Hsee 1998; Slovic 2000)] and risk reduction (Marin 1992).

Across the board, there have been different schools of thought on risk from being very objective to very subjective with discussions ranging between both. Scholars in the objective school such as Jacob Bernoulli introduced the different methods of statistical sampling and the normal distribution, which is also known as the bell curve, and Abraham de Moivre introduced the concept of standard deviation. In order to quantify risks, experts use mathematical tools to calculate the risk or benefit of an event based on knowledge and understanding of the probability of the event, multiplied by the expected utility of the event (Bernstein 1996, pp. 3-5). This mathematical quantification of risk requires identification and accessibility to all visible and known information that is possibly available surrounding the circumstances (Lee 1981, p. 5), transparent or otherwise, and is often made with the prior assumption that other factors remain constant.

Quantification makes available the estimation of probable profit or loss, in monetary terms as a result of a certain event. This has made possible the calculation of probability of profits or loss risks particularly in the shares market as well as investments and paved the way for the insurance industry. Calculations are made by experts who are distinct from the people affected by the event and the experts seem to be hired by the party proposing the event. In reality, given the limited accessibility to information, risk reduction is the best alternative (Renn 1992a, p. 54).

On the other hand, the basis for the subjective school was introduced by sociologists and anthropologists including Marx (1818-1883), Durkheim (1858-1917), Weber (1864-1920) and Simmel (1858-1918) as cited by Renn (*Op. Cit.*, p. 53). Proponents argue that the quantitative research is not sufficient to conclude on the feelings and behaviour of the subjects. Often the findings are superficial and inadequate since field research is not normally conducted by the social scientists themselves and thus they do not have a first-hand experience of the non-quantitative responses. Thus, the scientists do not understand the social context in which the research was done. Generally people does not treat low-consequence/high-probability hazards and high-consequence/low-probability hazards the same as assumed in Kasperson's (1992, p. 155) definition of risk.

Circumstances surrounding each event are different and will most likely not give the same results as a previous event. Proponents of the subjective school suggest that decision making is affected by attitudes towards risk based on the decision maker's own interpretation of the situation or event (Adams 1995; Holling 1979, 1986; Douglas & Wildavsky 1982), assuming the pre-existence of preferences as providing a motivation for decision makers as individuals as well as social organisations to select definite courses of action (Schwarz & Thompson 1990, p. 49). This interpretation differs from one person to another and varies according to a number of factors, of which culture is considered the main determining factor (Douglas & Wildavsky 1982).

As stated by Renn (1992a, pp. 56-58) the definition of risk includes: undesirable outcomes, possibility of occurrence and state of reality. Renn stated that all concepts of risk stem from three guiding questions: How can we specify or measure uncertainties? What are the undesirable outcomes? What is the underlying concept of reality? Real events are interpreted by different policy systems according to their social interpretations. These social interpretations normally are related to group values and interests. Besides referring to probabilities of an event, group knowledge and vision assist decision making. As stated by Renn (1992a, p. 72), "Lastly, reality is seen as a system of both physical occurrences (independent of human observations) and constructed meanings (with respect to these events and to abstract notions, such as fairness, vulnerability, and justice)."

Subjectively, risk is said to be an interactive phenomenon with each party having their own risk "thermostat"; a balancing behaviour between the propensity to take risks based on rewards and the perceived danger of "accidents" (Adams 1995, pp. 19-22). However, being interactive, the main difficulty is when those who perceive are different from those who enjoy the benefits of the reward, who are different from those who bear the costs of the accident. Therefore, the only person who can justifiably calculate the compensation required is the loser himself, although many people would resist the idea that such losses could be translated into cash at all (Adams 1995, p. 171).

An individual or an organisation should be able to explain that the action taken in response to an event is a consequent of their interpretation based on prior beliefs and experiences (Schwarz & Thompson 1990, p. 49). In the real world, not all of the information required for the individual or organisational decision making is available, adequate or properly communicated for several reasons such as non-disclosure, inaccessibility, non-transparency, non-regulation or invisibility, thus leading to uncertainties (Renn 1992a, p. 53). Often judgements about potential risks are made on the basis of inadequate substantiation (Adams 1995, p. 176). It was found that in these situations, decision makers assume that nature behaves in certain ways (Holling 1979, 1986; Schwarz & Thompson, 1990) resulting in distinctive management style for each prior conception of nature (Adams 1995, p. 33).

The subjective school proposed the reasons why individuals react the way that they do. Taking a subjective viewpoint, "risk is seen as a cultural or social construction, risk management activities would be set according to different criteria, and priorities should reflect social values and lifestyle preferences." (Renn 1992a, p. 54).

As stated by Adams (1995, p. 42), "Diverse behavioural responses to the same objective reality imply that reality is filtered by paradigms or myths of nature, both physical and human". Lupton discussed the topic of risk and subjectivity (1999, p. 106) stressing that the general public often have different perspectives of risk from the experts. She stated that this results not from ignorance or inability to understand probabilities, but suggests that the phenomenon of risk is a production of varying knowledge about the world.

The above discussion on objective and subjective views of risks implied the varied range by which risks could be interpreted. The following section will introduce the social arena metaphor of risk debates (Renn 1992c). This metaphor is selected because it seems to best represent the overall scenario of each case organisation and their respective interactions with the different policy systems within each social arena (for further detail on why this metaphor is selected, see section on the social arena metaphor of risk debates).

The social arena metaphor would represent a range of views of the different policy systems within each of the Pilgrims Fund and the Armed Forces Fund environment. The range of views of the different policy systems could be determined by their answer to the second research question in the first research objective, i.e. "What is/are the rationalities of the people within the organisations?" and the fourth research question in the third research objective, i.e. "What are the risk rationalities of the different policy systems?" (see pages 23-24) respectively.

Social arena metaphor of risk debates

The social arena metaphor (Renn 1992c) states that every organisation operates within an environment which consists of different policy systems such as actors, potential and current stakeholders, general public, rule enforcers, issue amplifiers, social groups and political institutions. These different policy systems debate risks within the arena and collectively they impact on the policy making of the organisation. It is this interaction between the different policy systems, the differing degree of their control on the values and how they influence the interactions within the environment which suggest that this is the theory that could most appropriately describe the scenario in this research. This interaction between the policy systems is also made possible partly by the information communicator, i.e. the issue amplifier that plays a significant role in the dissemination of information which would otherwise only be available to a smaller more limited audience.

The following subsection will explore in greater detail the policy systems, their roles and relationships as per Renn's (1992c) social arena metaphor.

Policy systems, roles and relationships

Understanding the fact that the organisations do not operate in a vacuum, the social arena theory states that the policy process may be influenced by policy systems outside the organisation. The arena metaphor can be used to describe social conflicts as a struggle between various actors in the arena. The actors, the political institution and the rule enforcement agencies are observed by the all-important issue amplifiers/theatre critics, i.e. the media who interprets the actions, communicate with the principal actors and amplifies their findings to a larger audience whether they are pro-government or pro-the-opposition party. Without the issue amplifiers, the majority of the audience will most probably be left in the dark. The amount of communication is influenced by the issue amplifier's allocation of resources to mobilise public support within the arena. The audience consists of potential and existing stakeholders, i.e. contributors and the general public; social groups, including individuals who may feel motivated to show their support or displeasure with one or several actors or the arena as a whole.

As stated by Renn (1992c, p. 180) the modified arena theory claims "that social groups in a political arena try to maximise their opportunity to influence the outcome of the collective decision process by mobilising social resources." The mobilisation of social resources can be used to gain the attention of the general public, to influence the arena rules, and to "score" in the arena competition with other actors (Renn & Kastenholz 2000, p. 59). Through the amount of attention gained, the social groups would have an enhanced degree of control over the other social groups within the arena. This best describes the scenario within the environment of the case organisations.

Renn further stated that (1992c, p. 181):

> The outcome of this theory is based on the assumption that individuals and organisations can influence the policy process only if they have sufficient resources available to pursue their goals. The political organisation of an arena and the external effects of each group's actions on another group's actions constitute structural constraints that make the outcome of an arena struggle often incompatible with the evidence and/or the values of any participating group.

A significant fact of the environment of the case organisations is the necessity of sufficient resources that are available to the influencing individuals and organisations to pursue their goals.

Renn's statement above that "the outcome of this theory is based on the assumption that individuals and organisations can influence the policy process only if they have sufficient resources available to pursue their goals" (*Ibid.)* well represents the research since it is the insufficiency of the resources that could restrict information communication and probably lead to information distortion. The distorted information may be used by other actors within the arena to their own advantage thus as per Renn (*Ibid.*, p. 182), "making the outcome of an arena struggle often incompatible with the evidence and/or the value of any participating group." The number of actors and the types of public institutions may change from one stage to another but all these stages have the same functional goal of providing social input to the policy process.

Referring back to the arena, at its centre are the principal actors; those groups in society that seek to influence policies. Some groups focus on several issues at once and are hence involved in different arenas. Others focus only on one issue in a single arena. On the outer sides of the metaphor are the stakeholders. Sternberg (1997, p.

31) defined stakeholders as "those groups without whose support the organisation would cease to exist" and later as "any group or individual who can affect or is affected by the achievement of the organisation's objectives." (*Ibid.*, p. 46). Stakeholders include people who have relatively little ability to exert economic influence over a particular company, whose lives are significantly affected by the company's activities (Unerman & Bennett 2004, p. 687). Hill, Fraser and Cotton (2001, p. 459) stated that the definition of stakeholders depends on prevailing legal, financial and economic interests; and recognise the possibility of lack of power of a particular stakeholder group.

In the United States, stakeholder dialogues have become a control measure against risk exposure. However, two main problems regarding the stakeholder dialogues are identifying and reaching a wide range of stakeholders; and determining a consensus set of stakeholder expectations from a range of different views held by different stakeholders (Unerman & Bennett 2004, p. 685). Unerman and Bennet (2004) propose building a discourse criteria of an ideal speech situation advocated by Habermas; a suitable theoretical model for determining a consensus set of social, environmental, economic and ethical responsibilities to be addressed by an organisation which could take the form of an internet-based web forum. However, if this forum is to be conducted by the organisation, judgement has to be made as to whether this constitutes a safe channel for the organisation to diffuse stakeholder grievances (*Ibid.*, p. 704).

In the United Kingdom, the importance of internet-based communication with the stakeholders so as to promote greater organisational accountability and to identify stakeholder concerns and issues has been discussed (Cooper, 2003). This communication could enable the organisation to cater for the needs of each stakeholder group. Table 2 shows Cooper's (2003, p. 234) classification of the primary and secondary social stakeholders and non-stakeholders.

Catering for the needs of stakeholders further, Hill, Fraser and Cotton (2001, p. 466) suggested that "the social audit process may enable a coming together of different stakeholders' aspirations, feelings and community perspectives."

Table 2: Primary and secondary stakeholders and non-stakeholders

Source: Cooper (2003, p. 234).

Primary social stakeholders	**Secondary social stakeholders**	**Primary non-social stakeholders**	**Secondary non-social stakeholders**
Shareholders and investors	Government and regulators	The natural environment	Environmental pressure groups
Employees and managers	Social pressure groups	Future generations	Animal welfare organisations
Customers	Civic institutions	Non-human species	
Local communities	Trade bodies		
Suppliers and other business partners	Media and academic commentators		
	Competitors		

The scenario is quite different in Malaysia. Although Malaysia has seen the advance of the internet, this technology is mainly centred in larger populated areas and due to either insufficiency of infrastructure (technological facilities such as phone/cable/broadband access) or personal resource (limiting access to a computer, thus to the internet), some stakeholders still rely on the newspapers and therefore the dissemination of information to this audience is quite limited - regional or localised - depending on the availability of facilities. The issue is a lesser possibility of securing these stakeholders' response to the information communicated. In terms of social audit, although this will satisfy shareholders' aspirations, social audit is not yet practiced in the public sector in Malaysia, thus denying stakeholders their aspiration.

Reverting back to the arena metaphor, according to Renn (1992c), each social arena is characterised by a set of formal rules that are coded and monitored by a rule enforcement agency, and informal rules that are learnt during the process of interaction between the actors. Among the formal rules are laws, acts, and mandated procedures. Among the informal rules are regulatory styles, political climate of group interactions, and role expectations. In most cases the rules are external constraints for each single actor. Formal rule changes require institutional action. Informal changes occur as a result of trial and error and may change according to whether or not rule bending is penalized. Several actors may join forces to change the rules even if they disagree on the substance of the issue (*Ibid.*, p. 182).

The duty of the rule enforcement agency is to ensure that the actors abide by the formal rules and to coordinate the process of interaction and negotiation. In many arenas the rule enforcement agency is the ultimate decision maker. The actors make their claims known to the rule enforcers and try to convince the rule enforcer to adopt their claims through arguments or public pressure (*Ibid.*, p. 182).

In contrast to traditional role theory or the theatre stage metaphor (Goffman 1959; Palmlund, Chapter 8), the arena concept does not picture the actions on stage as a play with a script or actors performing role assignments. Arenas are more like medieval courtyards in which knights have fought for honour and royal recognition according to specified arena rules that determine the conditions for the fight, but leave it to the actors to choose their own strategies. Accordingly, modern arenas provide actors with the opportunity to direct their claims to the decision makers and thus to influence the policy process. Their behaviour is not necessarily defined by behavioural roles and routines; actors may use innovative approaches to policy making or use traditional channels of lobbying. Arenas are regulated by norms and rules, however, which limit the range of potential options. Actors may decide to ignore some of the rules if they feel that public support will not suffer and if the rule enforcement agency is not powerful enough to impose sanctions on actors who violate the rules (Renn 1992c, p. 184).

The outcome of the arena process is undetermined. On one hand, various actors may play out different strategies that interact with each other and produce synergistic effects *(game theoretical indeterminacy)*. Strategic manoeuvring can even result in an undesired outcome that does not reflect the stated goal of any actor and may indeed be suboptimal for all participants. On the other hand, interactions in the arena may change all the arena rules *(structural indeterminacy)*. Novel forms of political actions may evolve as actors experience the boundaries of tolerance for limited rule violations.

Therefore, arenas often behave like indeterministic or nonlinear systems; small changes in strategies or rules are capable of producing major changes in conflict outcomes. It is also difficult to predict who is going to benefit from potential rule changes induced by trial and error. Both characteristics of arenas limit the use of arena theory for predictions, but do not compromise its value for explanation and policy analysis (*Ibid.*).

An examination of the different major sociological perspectives on risks (see page 46) seems to show that the social arena metaphor is potentially the metaphor that may best describe the factors within the case organisations' arena for this research due to its ability to portray the different policy systems within the environment in which the case organisations operate, the communication flow and the social mobilization (see Figure 1 on page 45). Being one of the different ways of conceptualizing risks within the social sciences (Renn & Kastenholz 2000) it suits this research because it encompasses the scenario, accommodating the different alliances within the environment, their control and inter-relationship with one another and the effect of this control and inter-relationship on the policy decisions of the organisation. Kitschelt (1980) used the social arena metaphor to describe the symbolic location of political actions of all social actors involved in a specific issue; influencing collective decisions or policies (in Renn 1992c, p. 181). The metaphor seems able to discuss the process of policy formulation and enforcement in a specific policy field, incorporating the impact of the policy systems within the arena. It shows the segmentation of society into different policy systems interacting with each other whilst at the same time preserving their autonomy. The social arena concept of risk debates have been used by other accounting researchers (see Steward, 2001; Georgakopoulos & Thomson, 2005, 2006, 2007). The application of the social arena concept of risk will be discussed again in the section on cultural theory (see page 47).

The different policy systems, i.e. the actors, the potential and current stakeholders, the general public, the rule enforcers, the issue amplifiers, the social groups and the political institutions will be discussed in greater detail in Chapter Six. Figure 1 shows a graphical representation of the arena metaphor as per Renn (1992c). The next section will enlist some major sociological perspectives of risk.

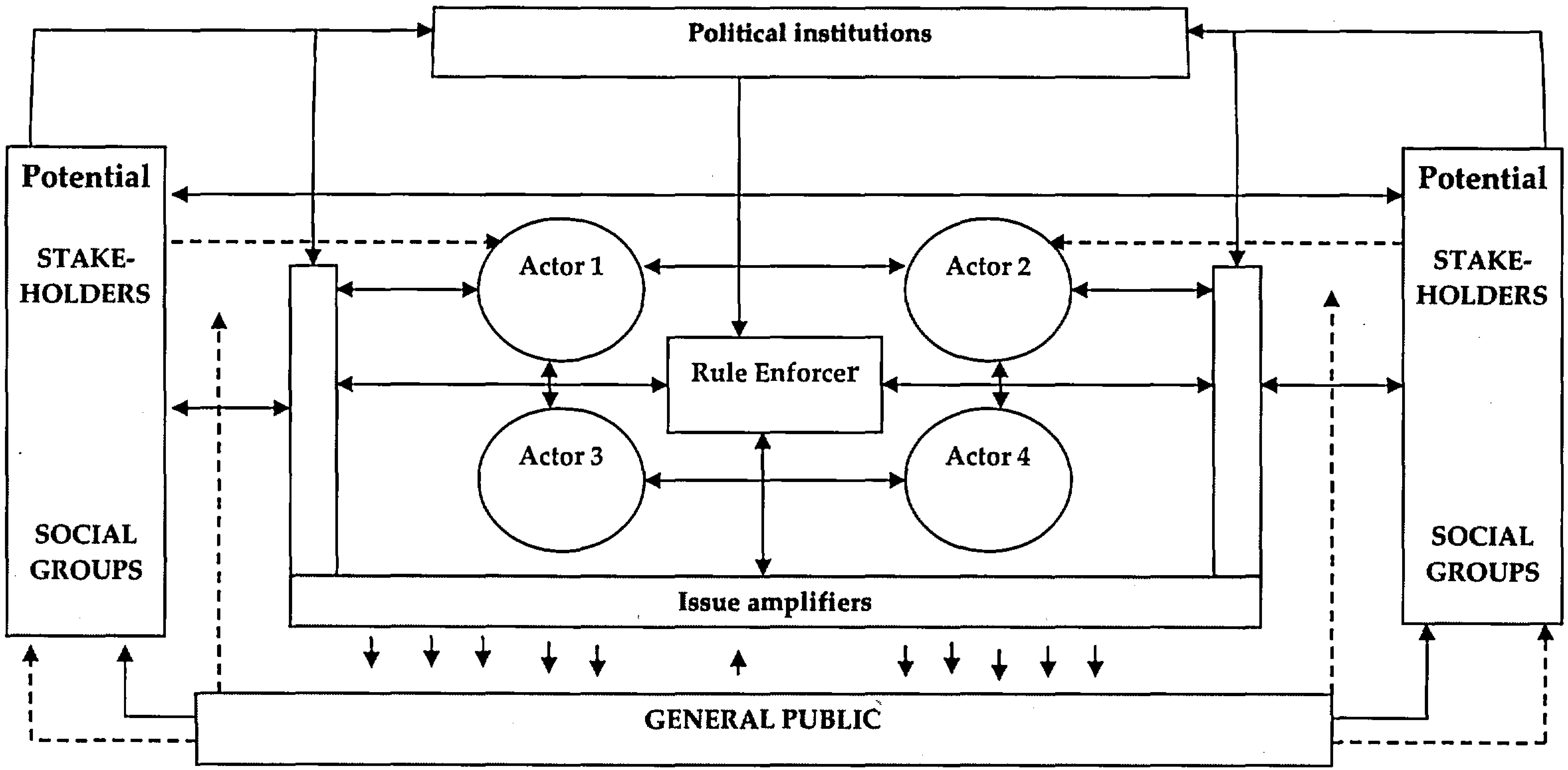


Figure 1: Graphical representation of the arena metaphor

Note: Solid arrows show communication flow; dotted arrows the direction of social mobilization.

Source: Renn (1992c, p. 183).

Some major sociological perspectives of risk

Renn (1992a) gave an overview of some of the major sociological perspectives on risk namely the rational actor concept (Stallings 1987; Dawes 1988), the social mobilisation theory (McCarthy & Zald 1977; Klandermanns 1984; Watts 1987; McAdam, McCarthy & Zald 1988; Gamson 1990), the organisational theory (Perrow 1984; Clarke 1989), the systems theory (Luhmann 1986, 1990; Stallings 1987), the neo-Marxist and critical theory (Habermas 1984-87; Forester 1985; Dombrowski 1987) and the social constructionist concept (Appelbaum 1977; Wynne 1983; Johnson & Covello 1987; Rayner 1987; Bradbury 1989; Dietz, Stern & Rycroft 1989; Gamson & Modigliani 1989). There are several other sociological perspective of risk such as the attribution theory (Heider 1958; Kelley 1967; Jones, Worchel, Ooethals & Grumet 1971; Jones & Wortman 1973; Ross 1977 and Ross & Fletcher 1985) and the social amplification of risk framework (Kasperson 1992). As stated by Dietz, Frey and Rosa (2002) "humans do not perceive the world with pristine eyes, but through perceptual lenses filtered by social and cultural meanings transmitted via primary influences such as the family, friends, superordinates, and fellow workers."

Later this section will look at the definition of culture, studies on culture and will discuss on risk and culture. Due to the fact that this research looks at the intra-cultural arena within the case organisations, the next section will discuss the cultural theory (Thompson, Ellis & Wildavsky 1990) which, together with the social arena metaphor of risk debates (Renn 1992c) discussed above, apparently would best explain the findings of this research.

Figure 2 below shows the major sociological perspectives of risk as per Renn 1992a, p. 68.

Cultural theory

There are many variants of cultural theorists. One of its most prominent writers is perhaps Hofstede (1979, 1980, 1982, 1983, 1991), who studied culture in an organisational setting across different nations exploring the impact of different cultural backgrounds on the organisation. Since this is an intra-cultural study on organisations within a single nation, involving individuals with the same ethnicity

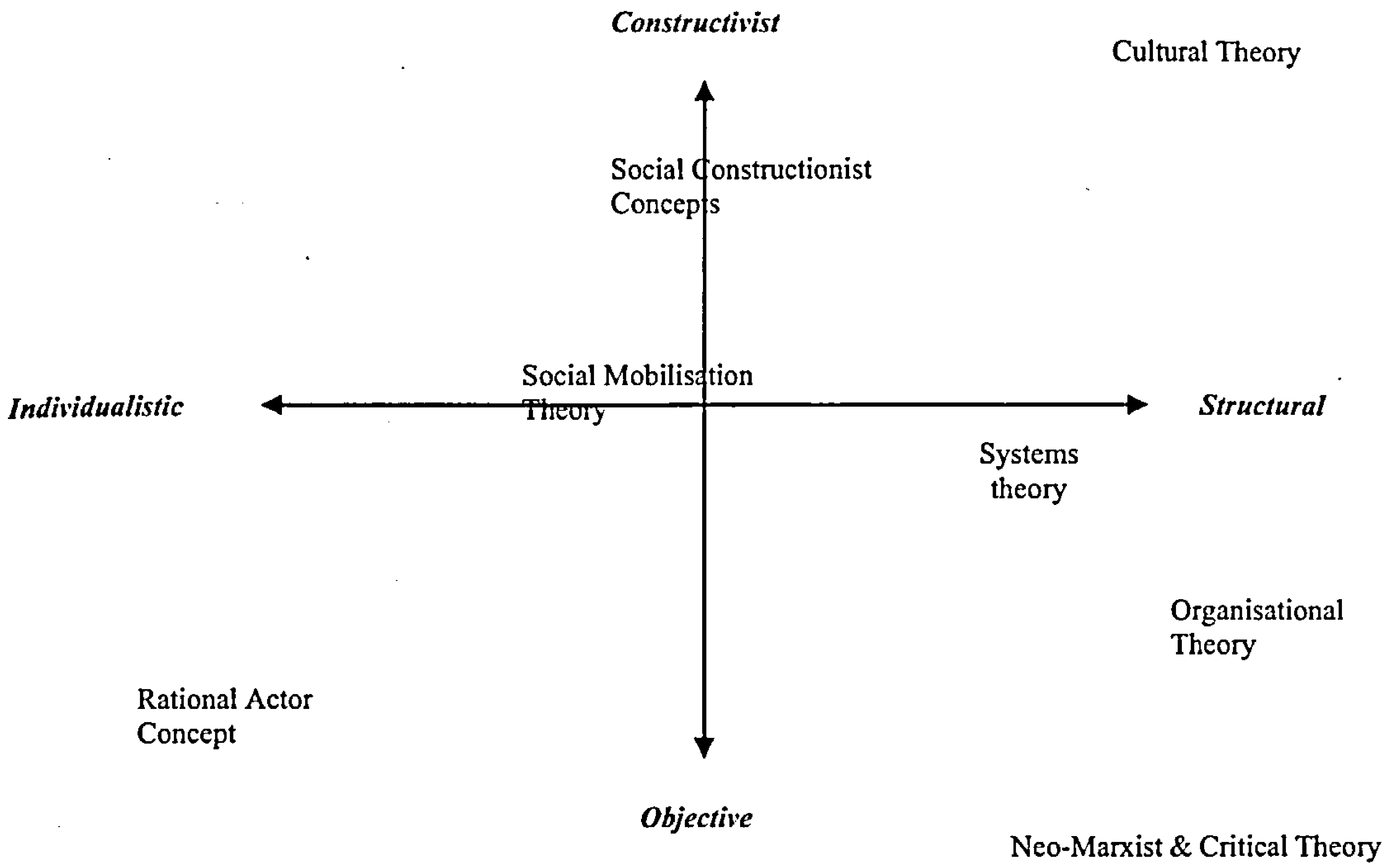


Figure 2: Major sociological perceptions on risk.
Source: Renn (1992a, p. 68).

and religion, the version of cultural theory that is applied will be quite different from Hofstede's inter-cultural cultural theory. The selected variant is one proposed by Douglas (1966) and later developed by Thompson, Ellis and Wildavsky (1990) and argued by Hood (1998, p. 6):

- grid/group cultural theory captures much of the variety in both current and historical debates about how to organize in government and public services, because it offers a broad framework for analysis which is capable of incorporating much of what is already known about organizational variety;
- application of cultural-theory framework can illuminate many of the central analytic questions of public management, including the analysis of collapse and failure in public services, the analysis of control and regulation, and the analysis of how public management ideas become persuasive.

This variant of cultural theory is applied in the context of the social arena concept of risk debates (Renn 1992c). Whilst Hofstede researches one organisation in different countries, within different ethnicity and religion thus different cultural groups, this study intends to research two organisations within one country, mainly within one ethnic group and religion, thus a single cultural group; and looking at the different policy systems within each arena. Cultural theory (Thompson, Ellis & Wildavsky 1990) is applied to the different policy systems in understanding their risk perception. The difference between Hofstede's variant of cultural theory and the variant used in this research is due to the fact that this research explores risk perception as a result of people's different beliefs and experiences, even when they belong to the same cultural group.

Hood's (1998) statement above justified the use of cultural theory in this study. Cultural theory will form a significant part of this study, thus the detailed discussion in the following paragraphs.

As per the subjective school of thought, Renn (1992a), Adams (1995) and Lupton (1999) confirmed Douglas and Wildavsky's (1982) theme that risk is "culturally constructed". Thompson, Ellis and Wildavsky (1990) and Schwarz and Thompson (1990) combined this theme with Holling's (1986, 1979) myths of nature, ascertaining patterns contained in the four myths of human nature (Adams 1995, p. 35). By integrating the four myths of human nature to the typology of physical nature, Schwarz and Thompson (1990) developed the four rationalities: the egalitarian with a view of nature ephemeral, the fatalist with a view of nature capricious, the hierarchist with a view of nature perverse/tolerant and the individualist with a view of nature benign (Figure 3). Schwarz and Thompson (1990) summarised this to the basic determinants of the four political cultures (Table 3).

The original idea for cultural theory was first introduced by Douglas (1966), although in a much later speech she states that it is "very much the joint creation of Michael Thompson and Aaron Wildavsky" (Douglas 2005). Schwarz and Thompson's *Divided we stand* (1990) and Thompson, Ellis and Wildavsky's *Cultural theory* (1990) elaborated on Douglas's (1966) fourfold typology giving specific characteristics for each culture. Weber and Hsee (1998, p. 1215) stated that

“A culture’s position on the individualism - collectivism continuum seems to contribute to the risk preference of

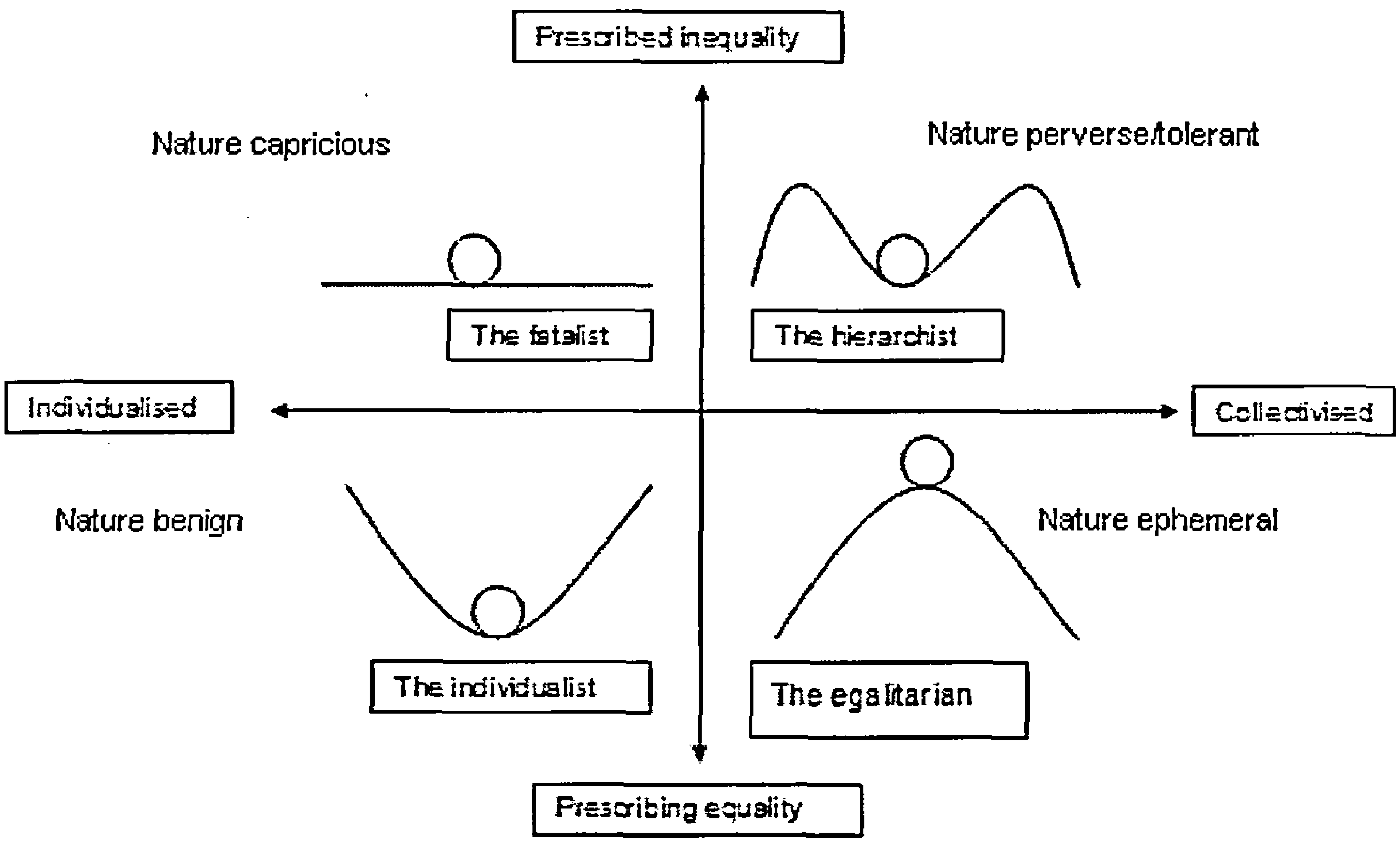


Figure 3: The four rationalities

Source: Renn (1992a, p. 74), Schwarz and Thompson (1990, p. 9) and Adams (1995, p. 37).

Table 3: The basic determinants of the four political cultures

	Egalitarian	Fatalistic	Hierarchical	Individualistic
Preferred way of organizing	Egalitarian bounded group	Margin	Nested bounded group	Ego-focused network
Certainty (myth of nature)	Nature ephemeral	Nature capricious	Nature perverse/tolerant	Nature benign
Rationality	Critical	Fatalistic	Procedural	Substantive
Context	Risks should be avoided unless they are inevitable to protect the public good.	Life is a lottery. Risks are out of our control; safety is a matter of luck.	Risks are acceptable as long as institutions have the routines to control them.	Risks offer opportunities and should be accepted in exchange for benefits.

Source: Schwarz and Thompson (1990, p. 61), Renn (1992a, p. 74).

its members.” Renn (1992a, p. 73) has the same view when he stated, “Culture is said to form a perspective which determines individual’s interpretation of risks and benefits.” Lupton (1999, p. 107) stated:

> Many people appear to have accepted the notion that one should make oneself aware of risks and act in accordance with experts' risk advice so as to prevent or diminish the impact of risk. Indeed the notion that one is personally responsible for the control of risk appears to be acculturated very early in life.

Although not all proponents agree that it applies to larger social aggregates such as organised groups or institutions as opposed to individual attitudes or convictions (Wildavsky & Dake, 1990), a study for predicting individual responses could be made using cultural prototypes; in their roles as representatives of agencies, industries or private organisations (Wildavsky, 1979). Organisations do not exist independent of its members but are created by the interaction between them (Heritage, 1984). The above paragraphs have discussed cultural theory as a social perspective of risk. The following paragraphs will discuss Renn's (1992a) discussion against it.

Arguments against cultural theory as a comprehensive theory of risk

In terms of the three guiding questions derived from his definition of risk, Renn (1992a, pp. 74-5) stated if it is true that cultural analysis implies three items; firstly the definition of undesirable events, secondly, the generation of possibilities and thirdly, constructions of reality; depend on the cultural affiliation of the social group, then, "Cultural theory would qualify as an exclusive and comprehensive theory of risk since all risk experience is seen as a reflection of cultural affiliations."

He therefore questioned the applicability of cultural theory "as an exclusive and comprehensive theory of risk" (*Ibid.*, p. 75) based on several reasons one in which he quoted Johnson (1987). Johnson (1987) proposed that individuals may belong to different organisations and groups with different cultural profiles. An individualist may belong to an egalitarian organisation and serve for charity in a hierarchist organisation. Renn (1992a, p 75) stated, "But role differentiation and segmentation of individuals are mirrored in the functional differentiation of social aggregate."

For this section perhaps the best accumulation of theories was made by Renn (*Ibid.*) who discussed the first seven perspectives at length, i.e. the rational actor concept, the social mobilisation theory, the organisational theory, the systems theory, the neo-

Marxist and critical theory, the social constructionist concept and the cultural theory (See earlier discussion on page 46-47). Renn (*Ibid.*) ordered the approaches with respect to two dimensions; individualistic (i.e. epistemological position that "the individual or the social aggregate, such as an institution, a social group, a subculture, or a society") versus structural (i.e. "interactive, often unintentional effects among individuals and between these larger units"), and objective (i.e ontological position with its concept implying "that risks and their manifestations are real, observable events") versus constructivist (with its concept "claims that risks and their manifestations are *social artefacts* fabricated by social groups or institutions.") (See Figure 2 on page 47). He stated (*Ibid.*, p. 69) that "*objective* and *constructivist* concepts differ in their view of the nature of risk and its manifestations". A limitation was that his study did not include "case studies, problem-oriented studies without reference to a theoretical concept, purely normative or ethical approaches and the (ever popular) conspiracy ideologies" (*Ibid.*, p. 69). This is important because the limitation leaves an information gap on case studies which this research intends to pursue.

The above paragraphs discussed arguments against cultural theory as a comprehensive theory of risk. The following paragraph will explore how culture has been interpreted in prior studies.

Definition of culture

Jahoda (1984, p. 140) stated that, "Culture is arguably the most elusive term in the generally rather fluid vocabulary of the social sciences." In anthropology, culture was defined as, "that complex whole which includes knowledge, belief, art, morals, laws, customs and any other capabilities and habits acquired by man as a member of society." (Taylor 1871 as quoted in Weber & Hsee 1998, p. 1208).

Renn (1992a, pp. 72-3) stated that:

> In recent years, anthropologists and cultural sociologists have suggested that social responses to risk are determined by prototypes of cultural belief patterns, that is, clusters of related convictions and perceptions of reality. Based on studies of early organisational principles in tribal communities, one school of anthropologists identified several generic

> patterns of value clusters that distinguish different cultural groups from each other.

Hofstede (1980, p. 25) defined culture as "the collective programming of the mind which distinguishes the members of one human group from another." Trompenaars (1993, p. 7) stated that there are different levels of culture; the national or regional society culture, which depends on the country or the region in which one lives; the corporate culture, on which attitudes are expressed within a specific organisation; and the professional culture, which is the culture of the particular functions within the organisation. He studied the ways in which culture structure the perceptions of people's experiences and stated (Trompenaars 1993, p. 13):

> Culture is a shared system of meanings. It dictates what we pay attention to, how we act and what we value. Culture organises such values into what Geert Hofstede (1980) calls "mental programmes". The behaviour of people within organisations is an enactment of such programmes.

In accordance with the definitions above, the following section will discuss some prior studies on culture.

Studies on culture

Perhaps the most prominent theory on culture used in accounting research is Hofstede's four cultural dimensions (1979, 1980, 1982 and 1983; Hofstede and Bond, 1984). According to Hofstede (1979, 1983), the first cultural dimension is power distance; i.e. the extent to which the less powerful members of institutions and organisations accept that power is distributed unequally. The second is uncertainty avoidance; i.e. the extent to which people feel threatened by ambiguous situations, and have created beliefs and institutions that try to avoid these.

The third is individualism versus collectivism; this reflects the position of the culture on a bipolar continuum. Individualism is a situation in which people are supposed to look after themselves and their immediate family only, whereas collectivism is a situation in which people belong to groups or collectives which are supposed to look after them in exchange for loyalty. The fourth is masculinity versus femininity. Masculinity is defined as "a situation in which the dominant values in society are success, money, and things," whereas femininity is defined as "a situation in which the dominant values in society are caring for others and the quality of life.

Hofstede (1991, p. 164) added another dimension from his study of the Chinese national culture originally labelled 'Confucian dynamism' which describes the time orientation, long-term versus short-term. Long-term orientation cultivates virtues oriented towards future rewards, in particular perseverance and thrift. Short-term orientation encourages virtues related to the past and present, in particular respect for tradition, preservation of 'face', and fulfilling social obligations (Hofstede 1991, pp. 261-262).

In line with Hofstede (1979, 1980, 1982 and 1983) and Hofstede and Bond (1984), Trompenaars (1993, p. 8) stated that the basis of cultural differences lies in three classifications; those based on the relationship between people; those which arise through time; and those which relate to the environment. He identified seven fundamental dimensions of culture, five of which comes from the first classification.

Hofstede's (1991) and Trompenaars' (1993) studies on intercultural organisations draw on the results of an earlier study by Geertz (1966) on person, time and conduct on the people of Bali, i.e. that there were dimensions of culture that could be interpreted differently by people from other cultures.

Hofstede's (1979, 1980, 1982 and 1983) and Trompenaars' (1993) studies were similar because they are based on organisations consisting of people from different cultures. Geertz's (1966) study on the people of Bali is different from Hofstede and Trompenaars' studies because Geertz studied people from only one culture. This research is similar to Hofstede's (1979, 1980, 1982 and 1983) and Trompenaars' (1993) studies in the sense that this is a study on organisations but differs from them because this research concentrates on one single nation. This research is similar to Geertz's (1966) study because it uses an intra-cultural approach. It is apparent that although a majority of the individuals within the arena have the same culture, their behaviour is quite different from one another.

Studies on organisational culture found that organisations are also tied to specific cultures Hofstede (1979, 1980, 1982 and 1983) and Hofstede and Bond (1984), Trompenaars (1993, p. 8). Davies (2000, p. 53) defined commercial culture as values, the way the organisation does business, its management style and how it treats its employees, customers, suppliers and other stakeholders." Pettigrew (1979, p. 574) stated that the culture of an organisation is a system of "...publicly and collectively accepted meanings operating for a given group at a given time". Schein (1985, p. 9) provided the following definition of organisational culture:

> A pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.

Therefore, even though the culture of a society identified several generic patterns of value clusters that distinguish different cultural groups from each other, it seems that within the cultural groups there is diversity, which could be explained by the cultural theory risk rationalities (Thompson, Ellis & Wildavsky, 1990). Within the social arena metaphor (Renn 1992c), cultural theory could be used to identify the risk rationality of each different policy system within the arena to help explain its behaviour. The social arena metaphor seems able to explain the environment in which the organisations operate and the interactions between the different policy systems in the arena and with the case organisation.

As a reflection, this research will observe the larger scenario, i.e. the action and reaction of different policy systems in the social arena within which the organisations operate, and how the different policy systems may have influenced the organisations' risk reporting actions.

The above section gave the different studies on culture. For the purpose of this study, culture will be taken to mean the ethnicity and the religious belief of the majority of individuals within the case organisations and the environment in which the case organisations operate. It should be noted that although the people has the same culture, they have different perceptions of risk which depends on their risk rationality.

The next section will discuss risk and culture prior to discussing Islamic accounting, risk and culture to help understand the differences that exist between individuals even when they have the same culture; and to help understand the interactions of the different policy systems within the arena of the case organisations.

Risk and culture

In this study it is crucial to see why culture is important to the understanding of risk perception and risk reporting. Studies seem to show that there is an influence of culture on how people react to risks, i.e. culture influences the actions taken by the subjects of the study, and there has been clear links between culture and accounting or risk reporting where culture was equated to, for example, religious belief (Gambling & Karim 1986; Hamid, Craig & Clark 1993; Maali, Casson & Napier 2006) and ethnic background (Haniffa 2001; Haniffa & Cooke 2005). Culture is considered an important determinant of the course of action to pursue but as seen earlier, culture itself is a concept which has many different interpretation and definitions, since the response by the individual to an event itself may represent an attempt to change culture. As stated by Bernstein (1996, p. 7):

> To judge the extent to which today's methods of dealing with risk are either a benefit or a threat, we must know the whole story, from its very beginnings. We must know why people of past times did – or did not – try to tame risk, how they approached the task, what modes of thinking and language emerged from their experience, and how their activities interacted with other events, large and small, to change the course of culture. Such a perspective will bring us to a deeper understanding of where we stand, and where we may be heading.

Islamic accounting, risk and culture

The relationship between Muslims and Islamic culture is perhaps best stated by Gambling and Karim (1986, p. 39):

> The collective personalities or mazeways of the individual people who comprise a group or society, form their culture, and accounting theory is part of the personality and hence part of the culture. If the individuals are

> Muslims, their personalities are Islamic and their culture is Islamic. Therefore their accounting theory is Islamic and encompasses the *Shari'ah* along with much else." (Gambling & Karim 1986, p. 39).

Shari'ah as defined by the Malaysian Accounting Standards Board (2004, p. 3), in its Islamic Financial Reporting Standards FRSi-1_{2004} means, "Islamic laws derived from *Al-Qur'an* and *As-Sunnah* (i.e. the acts or sayings of Prophet Muhammad (peace be upon him))".

In Islam, *Shari'ah law* (i.e. the Islamic law of human conduct) covers economic, social and legal aspects of life, as well as spiritual matters. The economic law requires firstly, keeping of proper accounts (*Al-Qur'an,* 2:282), secondly, the payment of *Zakat*, a sum set aside for the economy, including relief of the poor (*Al-Qur'an,* 9:60) and thirdly, the condemnation of usury, interpreted as *any* form of taking advantage of the poor and ignorant, which is commonly interpreted as the charging of interest (Gambling & Karim 1986, pp. 40-42).

It is clear that Islam imposes a need for an accounting system which is adequate to provide the required tax-base on which *Zakat* should be paid. *Al-Qur'an* has specified the different categories who are supposed to receive *Zakat* (*Al-Qur'an* 9:60). These include the poor, the deprived, people who cannot afford to pay their debts, travellers, and 'those in the path of Allah' (Gambling & Karim 1986, p. 43). Other recipients include health and education services.

On the prohibition of interest, Gambling and Karim (1986, p. 42) said that it is arguable that this total rejection of any form of interest is correct since it is also debatable whether the pure 'time value of money' can truly exist. Investment in the bonds of a stable government may be free of the risk of default by the borrower, but not of loss through depreciation of the currency itself. If the time value of money is no more than a premium against risk, Muslims will condemn it on the grounds that uncertainty in this world is the common lot of all men and women, and no one has the right to exempt themselves from it at another's cost (Gambling & Karim 1986, p. 42).

Hence, risk in Islamic culture can be seen to be quite different from other cultures. In Islamic culture, a degree of importance is placed on the integrity of the individual, and all actions of the individual should be based on the *Al-Qur'an*. If the economic laws of keeping accounting records, payment of *Zakat* and the prohibition of usury are to be assumed by an organisation, it should be prepared to face a series of challenges which are quite different from the Western profit-based system. There will be more value-based risks involving the individual and the organisation.

The organisation should also be aware that the Islamic economic law which seems lenient on the individual; i.e. based on trust, based on the individual's promise/words; comes coupled, all facts of the case being considered, with what may be taken as some quarters as punitive consequences for those who break the rules. Considering the various ways in which people respond to risk and uncertainty, there is no way an organisation could impose one law without the other, since imposing the lenient economic law but not having the power to impose the punishments for law-breakers is a recipe for mayhem.

Although Western influence is prevalent in regional colonies such as Pakistan, Bangladesh and Malaysia, the religion element of culture seemed to have a higher impact on business conducts of these Islamic nations; i.e. the practice of commerce and finance. Important business ethics in Islam flow from the practice of religion, not from the codes imposed by the professional associations (Hamid, Craig & Clark 1993, p. 133). Maali, Casson and Napier (2006, p. 271) stated:

> In Western models of accountability, firms (seen either as entities in their own right or as represented by managers) are accountable to their stakeholders; a major theoretical issue is identifying who are the relevant stakeholders who have rights to information, and how far such rights extend. In these models, the responsibility and therefore the accountability of companies are not considered to extend beyond human society, and therefore such theories do not envisage any accountability to God (Haniffa 2001, p. 9).

Important points to note are the main differences between Western and Islamic banking, including firstly, the attention to people and their business, rather than on accounts; secondly, the forbiddance of usury; which includes proscription of interest as well as any speculative transactions and financial instruments having inherent interest content; and thirdly, forbiddance of hoarding of money or stores of value such as gold and jewellery. This sets the case for a redefinition of risks for the financial institutions, i.e. risk of non-compliance with the *Al-Qur'an*. Considering another perspective, Citibank's David Hightower commented that Islamic banking "is a way of mobilising part of the money supply, which has in the past been relatively inert." (As quoted in Temple 1992, p. 47.)

The essence of Islamic banking is to use money for a productive purpose, for example, in the form of a partnership, where the provider of capital and the entrepreneur shares in the financial risks and rewards of the venture (Temple 1992, p. 46).

There are not any specific criteria in the *Shari'ah* to which a Muslim might refer for guidance as to what constitutes an allowable, non-speculative investment. The assessment is a matter of conscience for the individual to grapple with, and Muslims' decisions in this respect are fashioned by their belief that only God knows what is speculative and what is not, and that they are answerable before God for their investing actions.

Consequently, all Islamic banks have religious committees who may disagree on the acceptability of certain issues themselves. But Temple (*Ibid.*, p. 47) stressed the measures taken by Islamic banks to avoid problems:

> It is worth stressing at this point that bank of Credit and Commerce International (BCCI) itself was not an Islamic bank as such although certain of its funds were supposedly managed under Islamic banking principles. As far as money laundering is concerned, since the *Al-Qur'an* specifically prohibits intoxicants of any description, true Islamic banks have sophisticated systems and rigorous scrutiny of customers and transactions, designed to avoid the problem and to protect their own image and integrity...market participants foresee the continuing development of bona fide Islamic banking to the point where it represents a significant, albeit perhaps not a majority, share in the banking markets of most Islamic countries.

Baydoun and Willet (2000, p. 71) developed a theory about the form and content of the financial information that should be disclosed in an Islamic financial statement.

The theory suggests that Islamic religion as a cultural variable affects the interpretation of certain accounting measures and the way in which information should be disclosed. They identified two important criteria for Islamic accounting firstly, a form of social accountability and secondly, a rule of full disclosure. They suggested that the Islamic Corporate Reports (ICRs) should contain a value-added statement (see Table 4) as the focus of performance of the accounting entity and a current value balance sheet in addition to the historic cost balance sheet. These, they said, would better serve the needs of users wishing to act in accordance with the Islamic code.

Chapter Six will attempt to explore the extent of use of the Value-Added Statement to the Annual Financial Statements as per Baydoun and Willet, 2000. Chapter Six will also try to explore if the social amplification of risks by the different policy systems within the environment affects the policy making of the case organisations.

Table 4: Value added statement

Sources of value added	£	£
Revenues	X	
Bought-in items	(X)	
Revaluation	X	X
Distributions, p.		
Beneficiaries (e.g. *Zakat*)	X	
Government (e.g. taxes)	X	
Employees (e.g. wages)	X	
Owners (e.g. dividends)	X	
Charities, mosques (e.g. gifts)	X	X
Reinvest funds, p.		
Profit retained (note)	X	
Revaluations	X	X
		X
Note: Details of the traditional form of profit and loss account would be shown in the notes to the accounts.		

Maali, Casson and Napier (2006, p. 266) conducted a study in which they developed a benchmark set of thirty items of social disclosures appropriate to Islamic banks according to the *Shari'ah* law and applied these to the actual social disclosures contained in the Annual Reports of twenty-nine Islamic banks in sixteen countries.

They also applied content analysis to measure the volume of social disclosures. Their analysis suggests that social reporting by Islamic banks might be avoiding issues that could negatively affect their Islamic image, such as charging penalties which resemble usury, whilst at the same time, promoting issues that could positively promote their image, for example, through their charitable activities. This may be due to the fact that "negative corporate image can have a serious economic implication for organisations." (Buhr & Freedman 2001, p. 294).

This practice is clearly against the principles of full disclosure and accountability of individuals and organisations to God and the Islamic community. Islamic financial institutions should disclose all information deemed important from the Islamic perspective for people in the societies they operate, and not just the information that would help in constructing a beautiful Islamic image. Maali, Casson and Napier (2006, p. 286) also found that Islamic banks falls significantly short of their expectations and that Islamic banks have not met the expectations of the Islamic community.

This research adapts and integrates Maali, Casson and Napier's (2006) benchmark of social disclosures appropriate to Islamic banks (See Table 5 for a list of thirty expected disclosures) to the risk disclosure categories (ICAEW, 1998) (See discussion of the risk disclosure categories and Table 6, for the risk disclosure categories) to highlight the risk disclosure categories appropriate to the Islamic banks (see Table 16 in Chapter 3) which should be applicable to the Pilgrims Fund, as an Islamic financial organisation. The integration of Maali, Casson and Napier's (2006) thirty expected disclosures according to the *Shari'ah* law to the ICAEW's (1998) risk disclosure categories will represent a contribution of this research to accounting since the framework could be used to assess if the financial statements of an organisation is in accordance to *Shari'ah* law whilst at the same time showing the risk disclosure categories as per ICAEW (1998). Table 5 shows the disclosure index based on their expectations.

The above subsection discussed on the Islamic accounting, risks and culture. The next section will give a detailed discussion on risk reporting.

Table 5: Expected disclosures

Area	Items to be disclosed	Accounting and Auditing Organisations for Islamic Financial Institutions (AAOIFI)	Comments
Shari'ah opinion	1. Report of *Shari'ah* Supervisory Board	Required	
Unlawful (*Haram*) transactions	1. Nature of unlawful transactions	Required	
	2. Reasons for undertaking such transactions	Not required	
	3. The *Shari'ah* Board's view about the necessity of these transactions	Not required	
	4. The amount of revenue or expenses from these transactions	Required	
	5. How the bank disposed, or intends to dispose, of such revenues	Required	
Zakat (for banks required to pay it)	1. Statement of sources and uses of *Zakat*	Required	The statement required by AAOIFI includes *Zakat* and charity together
	2. The balance of the *Zakat* fund, and reasons for non-distribution	Required	
	3. *Shari'ah* Board attestation regarding the computation and distribution of the funds	Not required	
Zakat (for banks not required to pay it)	1. The amount due in respect of shares and deposits	Required	
	2. The *Shari'ah* Board's opinion regarding validity of computation	Required	
Quard Hassan	1. Sources of funds allocated to *Quard*	Required	Required by AAOIFI standards as a statement
	2. The amounts given to beneficiaries	Required	
	3. The social purposes for which the funds were given	Required	
	4. The policy of the bank in providing such loans	Not required	
	5. The policy of dealing with insolvent beneficiaries	Not required	

Table 5: Expected disclosures (continued)

Charitable and social activities	1. The nature of charitable and social activities financed	Required	Required by AAOIFI as part of *Zakat* statement
	2. The amount spent in these activities	Required	
	3. The sources of funds used to finance these activities	Required	
Employees	1. The policy on wages and other remuneration	Not required	
	2. The policy on education and training of employees	Not required	
	3. The policy of equal opportunities	Not required	
	4. The policy on the working environment	Not required	
Late repayments and insolvent clients	1. The policy in dealing with insolvent clients	[See comment]	Required by AAOIFI only for *Murabahah* financing, and not other modes of finance
	2. The amount charged as late penalty, if any		
	3. The *Shari'ah* Board's opinion regarding the permissibility of imposing additional charges (such as late penalties)		
Environment	1. The amount and nature of any donation or activities undertaken to protect the environment	Not required	
	2. The projects financed by the bank that may lead to harming the environment	Not required	
Other aspects of community involvement	1. The bank's role in economic development	Not required	
	2. The bank's role in addressing social problems	Not required	

Risk reporting

This section will be divided into two main subsections, accounting disclosure and information communication.

Accounting disclosure

This subsection shall discuss firstly, risk disclosure, accountability, transparency and regulations and secondly, disclosure and culture.

Risk disclosure, accountability, transparency and regulations

Cvetkovich and Timothy (1992, p. 11) stated that, "Much of the published advice for improving risk communication consists of unsystematic unevaluated suggestions. There is a great need for systematic evaluations of risk communication." The American Accounting Association and the Financial Accounting Standards Board jointly sponsored a conference in 1997 in which academics, analysts, board members, regulators and corporate financial officers discussed and shared their perspectives on current accounting issues. In the "Risk and Financial Reporting" session of the conference, issues related to developing accounting standards for risk disclosures in financial statements were discussed; firstly, on the current disclosure requirements and secondly, specific issues related to risk that complicate the improvement of the reporting requirement process. The discussion suggested that the United States companies were providing insufficient risk information in their Annual Reports.

The general agreement on disclosure requirements was that they show inadequate exposure about risks and uncertainties (see American Institute of Certified Public Accountants (AICPA), 1987) despite the fact that there was authoritative guidance on risk disclosures, i.e. Statement of Position (SOP) 94-6, Disclosure of Certain Significant Risks and Uncertainties, developed in 1994 (AICPA 1994a); as well as by the Securities and Exchange Commission (SEC) (1997) in S-1 registration statements and in Management's Discussion and Analysis (MD&A) and the issuance of new requirements by the SEC for market risk disclosure in 1997.

In their commentary about the conference, Shrand and Elliott (1998, p. 273) stated that the major questions raised were:

"(1) Which types of risks should be disclosed; and

(2) How should these risks be measured?"

They also raised the issues of the definition of risk as well as how risks could be quantified. This is because the degree of management control over risks varies by the type of risks and flexibility in making assumptions on risk measurement. Flexibility could allow managers to make more informative disclosures, at the same time, it could lead to manipulation.

On a broader scale, financial reporting standards (FRS) were established in an attempt to standardise accounting practice. However, the judgements guided by the definitions of the accounting concepts contained within the standards can often have a major impact on an organisation's external reporting as due to their subjectivity they are again subject to manipulation (Hronsky & Houghton 2001, p. 123).

In terms of risk disclosure, in the United Kingdom in 1993, the Operating and Financial Review recommended listed companies include a review of key risks. A study (ICAEW, 1998) found that amongst the companies that have disclosed an operating and financial review, only 13% made available clear discussion of trends affecting the future and 18% identified some relevant risks and uncertainties in the main business that could have a considerable effect on future results. Another study (ICAEW, 1999) found that companies make extensive disclosures about a wide range of risks and related actions and measures in prospectuses but provide substantial but rather less complete information in Annual Reports.

In view of the low percentage of companies making risk-related disclosures, the ICAEW has issued three discussion documents (1998, 1999 and 2002a) to encourage company directors to report on risks in greater depth. The risk disclosures identified were classified into six risks categories consisting of financial risks, operations risks, empowerment risks, information processing and technology risks, integrity risks and strategic risks; using a risk model developed by one of the professional accountancy firms (ICAEW, 1998) (See Table 6).

Table 6: Risk disclosure categories

Source: ICAEW (1998), Linsley and Shrives (2006, p. 402).

Financial risk	Interest rate Exchange rate Commodity Liquidity Credit
Operations risk	Customer satisfaction Product development Efficiency and performance Sourcing Stock obsolescence and shrinkage Product and service failure Environmental Health and safety Brand name erosion
Empowerment risk	Leadership and management Outsourcing Performance incentives Change readiness Communications
Information processing and technology risk	Integrity Access Availability Infrastructure
Integrity risk	Management and employee fraud Illegal acts Reputation
Strategic risk	Environmental scan Industry Business portfolio Competitors Pricing Valuation Planning Life cycle Performance measurement Regulatory Sovereign and political

It is important to note that most of these risks are not part of mandatory disclosure requirements of Annual Financial Reports and therefore the majority of risk reporting will be voluntary in nature rather than due to regulatory compliance.

Another effort to fill the gap of risk reporting was made through corporate governance, a process that comprises of directors' accountability to the shareholders, supervision of managerial action and setting strategic directions (Tricker 1984). Corporate governance supervises and guides corporate behaviour (Rayman-Bacchus 2003, p. 180). The fact that stakeholder groups hold corporations to account for their decisions and actions, made possible through the internet, suggests that corporate behaviour has become more open to scrutiny and action (Whysall 2000) and are answerable to the public (Samuels 2001).

A further influence on the development of risk management systems in the United Kingdom has been the internal control and risk management disclosure requirements of the Combined Code of Best Practice in Corporate Governance produced by the Turnbull Committee and published by the London Stock Exchange in 1993 where listed companies are required to state that they maintain a sound system of internal control, emphasizing the need for internal risk management procedures as well as to recommend companies report externally on their key risks. Spira and Page (2003, p. 640) found that developments in corporate governance reporting requirements, brought about by recent changes in internal audit, allows for the appropriation of risk and its management by interested groups.

In their study, Beretta and Bozzolan (2004, p. 269) defined risk disclosure as, "the communication of information concerning a firm's strategies, characteristics, operations, and other external factors that have the potential to affect expected results." They contended that, in the analysis of disclosure of risks made by public companies, attention has to be paid not only to how much is disclosed but also to what is disclosed and how. They proposed a framework for the analysis of risk disclosure that considers four different but complementary dimensions: the content of information; the economic sign attributed to expected impacts; the type of measures used to quantify and qualify the expected impacts; (the outlook orientation of risk communication) and the managerial approach to the management of risks.

Based on the professional bodies' (AICPA 1994b, Canadian Institute of Chartered Accountants (CICA) 2001, FASB 2001, ICAEW 2002b) guidance on voluntary risk reporting, on the accounting literature (Robb, Single & Zarzeski 2001), and on the guidelines for risk assessment and analysis proposed by practitioners (Bell, Marrs, Solomon & Thomas 1997; DeLoach 2000), Beretta and Bozzolan (2004, p. 270) built their risk framework to analyse risk communication and proposed an index to measure the quality of risk disclosure.

The contents of disclosures is reduced to the following categories: strategy (goals for performance, mission, broad objectives, and way to achieve objectives); company characteristics, such as financial structure, corporate structure (changes in ownership, mergers and acquisitions), technological structure (core and support technologies), organisation (organisational structure and human resources management), and business processes (concerning the way operations are managed); and environment around the company (legal and regulatory, political, economic, financial, social, natural and industry) (*Ibid.*).

For the analysis of the semantic properties of the information disclosed, they proposed that disclosure is enriched by the way the expected impact of disclosed risks are qualified and quantified. The communication measurement of the expected impact can be articulated in two complementary components:

- the *economic sign,* that communicates the direction of the expected impact of risks upon the future performance of the firm;

- the *type of measure* used in order to specify the economic sign. The measurement can be expressed in qualitative or quantitative terms, using either monetary or non-monetary scales (*Ibid.*).

Based on the guidance proposed by CICA (2001) and ICAEW (2002b) which underlines the importance of communicating management's approach to risks, the capabilities and resources devoted to it, another dimension of analysis is considered in the proposed framework: the *outlook orientation.* Outlook orientation reflects both the time orientation of the information disclosed (information may just refer to the actual state or be projected into the future and the approach management takes towards adopted risk (disclosed information can simply communicate general hypothesis or expectations concerning the future, or provide information concerning management programmes or action to be taken in order to face exposed risks). (Beretta & Bozzolan 2004, p. 271). Table 7 presents the classification scheme proposed.

Table 7: A classification scheme: risk factors and semantic properties

Source: Beretta and Bozzolan (2004, p. 271).

Category	Modalities
Risk factors	
Content	**Company strategy** Strategy **Company characteristics** Financial structure Corporate structure Technological structure Organisation Business processes **Environment around the company** Industry Legal – regulatory environment Environment: political, economic, Financial, social, natural, Legal – regulatory
Semantic properties	
Economic sign	Positive Equal Negative Not disclosed
Type of measures	Financial quantitative Financial qualitative Non financial quantitative Non financial qualitative No measures
Outlook orientation	Hypothesis – expectation Programs Actions or decisions taken Actual state

Linsley and Shrives (2006, p. 390) stated that Beretta and Bozzolan's (2004) analysis was the most extensive risk reporting study on companies to date. A key conclusion was that firms focus upon disclosing information on past and present risks, rather than future risks. Where future risks are disclosed, directors are reluctant to indicate whether the impact is likely to be positive or negative. Additionally, directors have a predisposition to self-justification when reporting on risk; that is they feel compelled to attribute risks with negative outcomes to external events. Ascribing the cause of negative outcomes to factors that are beyond directors' responsibilities suggests attribution theory (Aerts 1994) may be a factor in risk reporting.

Along similar lines, using available disclosure quality scores extracted from detailed analysis of Annual Reports, Daske and Gebhardt (2006) found that the disclosure quality of Austrian, German and Swiss firms which have voluntarily furnished information and complied with the International Financial Reporting Standards in response to specific stock market segments has increased significantly. Similar to other UK studies (Firth 1979; Beattie, McInnes & Fearnley 2004b) and in the non-UK study (Hossain, Perera & Rahman 1995), Ahmed and Courtis (1999, p. 49) found that the corporate size was significantly associated with disclosure levels in Annual Reports but that there was only a positive relationship between profitability and the disclosure levels (Ahmed & Courtis 1999, p. 53). More specifically, a significant association was found between the number of risk disclosures and the company size (Linsley & Shrives 2006, p. 387).

Towards improving the quality of risk disclosure, in an earlier study, Linsley and Shrives (2000) and Beretta and Bozzolan (2004) proposed that companies should quantify the size of a risk wherever possible, as the placing of a monetary value upon a risk enables the reader to assess its potential impact upon the company. However, Linsley and Shrives (2006, p. 391) later stated that there are significant difficulties associated with quantifying risks. The measurement of risk can be problematic because of a lack of data (Frame, 2003). A risk measurement technique may only be applicable in limited circumstances, for example when applying value at risk methodologies (Dowd, 1998). Therefore, directors will often have to use best judgement to estimate the size of a risk knowing that the eventual risk outcome may be quite different from this original estimate. As disclosure of estimated risk quantification leaves directors open to ex-post censure, and potential legal claims where investment decisions have been based upon these erroneous estimates, the directors have a greater propensity to describe and discuss risks within the Annual Report without providing quantified estimates of potential outcomes (Linsley & Shrives 2006, pp. 391-2).

In terms of risk disclosure and the level of company risk, it could be postulated that companies with higher levels of risk will disclose greater amounts of risk information as the directors have a greater need to explain the causes of this higher risk. In addition, these directors could have a strong incentive to detail to shareholders and the wider stakeholder community on how they are managing this risks and this would also result in higher levels of risk disclosure. Thus a positive association between risk disclosures and risk levels would exist. At the same time, companies with higher levels of risk may not want to draw attention to their 'riskiness' and therefore may be reluctant to voluntarily disclose significant amounts of risk information.

On the other hand, companies with lower levels of risk, perhaps because of the nature of their business activities or their superior risk management abilities, may wish to signal this through improved risk disclosure. There is the possibility of a circular relationship between risk levels and risk disclosure. The ICAEW (1999) have argued that companies disclosing more risk information will find that the marketplace better understands the company's risk position and the company is then deemed to be less risky than before. Therefore, increased risk disclosure could impact upon the perceived level of company risk, although to what extent is unknown (Linsley & Shrives 2006, p. 391).

This research will adapt the risk disclosure categories (ICAEW, 1998) to categorise the risks reported by the case organisations. Even though Linsley and Shrives (2006) has stated that Beretta and Bozzolan's (2004) analysis was the most extensive risk reporting study prior to their study, Beretta and Bozzolan's classification scheme (Beretta & Bozzolan, 2004, p. 271) is best suited for companies in the private sector and not to the semi-government case organisations. At the same time, the classification scheme would not categorise the risks reported by the case organisations. Risk categorisation is important to this study because it intends to explore the risk reporting of the organisation and possibly to find a reason linking risk reporting to risk perception.

The above presented a discussion on risk disclosure, accountability, transparency and regulations. The following subsection will elaborate on disclosure and culture, to understand the impact of culture on disclosure.

Disclosure and culture

In their study, Haniffa and Cooke (2005, p. 391) seek to increase understanding of the potential effects of culture and corporate governance on social disclosure in Malaysia. They used ethnic background as the proxy for culture. The study showed a significant relationship between corporate social disclosure and boards dominated by Malay directors, boards dominated by executive directors, chair with multiple directorships and foreign share ownership.

Another study by Birnberg and Snodgrass (1988, p. 460) found that the presence of a culture which is homogeneous and cooperative would lead to less emphasis and resources could be spent on communicating across organisational levels and directing information to the proper individual or work group.

In neighbouring Indonesia, Efferin and Hopper (2007, p. 254) suggested that the cultural values of the Chinese business owners and the *Pribumi* (indigenous) employees were complementary: it was the history of state discrimination and wealth differentials that fuelled ethnic tensions, which were a latent residual from previous eras.

In another study on culture, it was found that the tone of voice portrays different images in different cultures. In Nigeria, it was found that raising the tone is effective for important issues, but in Malaysia, shouting is a sign of loss of face and colleagues will not take shouting seriously (Trompenaars 1993, p. 69).

The above section discussed disclosure and culture. The following section will explain information communication because how the information is communicated will have an effect on its perception.

Information communication

This subsection shall be further subdivided into internal information communication, i.e. communication within the organisation and external information communication, i.e. referring to communication with or between parties external to the organisation and mass media influence on the information communicated.

Internal information communication

A study by Rowe and Struck (1999, p. 179) on internal information communication stated that the most frequent objectives of information communication are to "get precise information", "transmit precise information" and to "discuss/exchange information". In order to get precise information, the mode of communication most often used is the telephone. Other reasons why the telephone is used are to: "resolve problem/decide", and "discuss/exchange information".

When transmitting precise information, individuals within the organisation normally use written media, i.e. email and fax. More ambiguous and interactive objectives promote the use of the telephone which all studies rank higher in richness than voice mail (vmail), email and fax (Zmud, Lind & Young 1990 and Rice 1992). Rowe and Struck's study (Rowe & Struck 1999, pp. 178-9) on the individual's use of telecommunication services (fax, email, vmail and telephone) within an organisation showed that use is generally related to access. For example, use of internal telephone depends on the access differences inside the company. People who share offices have less privileged access to telecommunication services. Their study also showed that people who have access to email and vmail use the phone 60% less than people who do not.

The priority is to have clear reporting channels and protections for informers (Davies 2000, p. 3). Business unit management, group management and internal auditors should monitor operations and seek explanation for irregularities (Davies 2000, p.

58). With regards to the International Standards on Auditing (ISAs), internal auditors are required by the Institute of Internal Auditors (IIA) (2000) to discuss audit matters with the board of directors. The focus of communication by the internal auditors is mainly the internal aspects of the organisation (Colbert 2002, p. 147). The internal audit department should therefore have the expertise to fulfil their role as consultants and should be well coordinated with the audit committee and external auditors (Nagy & Cenker 2002, p. 130).

External information communication

A study by Fraser and Henry (2003, pp. 43-44) stated that:

> Respondents indicated that the shareholders were taking an interest in a wider range of information than ever before. One risk manager indicated that in his company assurances were given to shareholders on risk management at the annual shareholders' meeting with the presentation being posted on the company website.

The wider range of information required by the shareholders represents a shift in the attitudes of the shareholders, i.e. they want to know more about their investment, including its risk management.

In terms of external information communication, organisations could learn from other businesses and set communications policies (Davies 2000, p. 76). Results of the study by Maali, Casson and Napier (2006, p. 278) proved that although the Islamic principles upholds social issues in human conduct, the Annual Reports did not disclose as much information as they could have.

This contradicts the findings of Buhr and Freedman (2001, p. 293) where culture heightened voluntary disclosure in corporate reports. They found that in recent years, the collectivist nature of the Canadian society has led to a higher level of voluntary environmental disclosure in the environmental report.

In terms of market responses to the information communicated, Burton, Coller and Tuttle (2006, p. 107) found that qualitative information induces varying beliefs within the society because such information is interpreted using the relevant knowledge possessed by the recipients.

With regards to information communication from auditors, the International Standards on Auditing (ISAs) require external auditors to communicate with the client's governing body. The focus of communication by the external auditors mainly serves their duties to the external users. In terms of the audited companies, information provided to employees preceding an audit appears to improve the performance of the individual (Neidermeyer & Neidermeyer 2005, p. 26). Management should therefore hold more informational meetings to discuss with employees the expectations of the auditors as well as the management to reduce employee errors. On the other hand, the board requires financial, operational as well as compliance information from the auditors which are utilised to efficiently and effectively govern the organisation (Colbert 2002, p. 147).

Mass media influence

Media is a powerful influence on public attitudes, beliefs and intended behaviour (Philo 1999; Kitzinger 1990; Bartels 1993; Miller 1995 and 2006). It establishes public awareness of an issue (Eldridge, Kitzinger & Williams 1997, p. 168). Television and newspaper representations are the lens through which most people view reality (Eldridge, Kitzinger & Williams 1997, p. 163). There is a clear relationship between certain recurrent themes in news reporting and what is recalled, understood, and sometimes believed by audience groups.

Some audience absorb considerable information from the press and television (Kitzinger 1999, p. 5), even when the media have given false accounts (Miller 1995; Philo 1999, p. 282), maybe due to the absence of other sources of data (Eldridge, Kitzinger and Williams 1997, p. 167); whilst others scrutinise the information, consequently rejecting messages interpreted as unrepresentative, illogical or contradictorily covered in the different media outlets particularly due to their personal experience (Eldridge, Kitzinger & Williams 1997, p. 162; Kitzinger, 1999, p. 13).

Public interpretation of the media coverage could be influenced by cultural associations and the underlying logic of the reporting (Eldridge, Kitzinger & Williams 1997, p. 164). It is also possible to identify clusters of meaning and to link these to the social position of the audience and their interpretative communities (Hall 1973). Other studies showed that even if the public resists the dominant message of a programme (Eldridge, Kitzinger & Williams 1997, p. 162), it will have conveyed facts to influence their ideas, assumptions and attitudes.

In all forms, media help to shape the perceptions of key social issues (Eldridge, Kitzinger & Williams 1997, p. 160). They are regarded as "the issue amplifiers; the professional "theatre critics" who observe the actions on stage, communicate with the principal actors, interpret their findings, and report them to the audience", within the arena metaphor. There are also the social amplifiers of risks (Kasperson 1992; Renn, Burns, Kasperson, Kasperson & Slovic 1992; and Kasperson, Kasperson, Pidgeon & Slovic 2003).

Through this communication process, they influence the allocation of resources and the effectiveness of each resource to mobilize public support within the arena. The audience consists of other social groups who may be enticed to enter the arena and individuals who process the information and may feel motivated to show their support or displeasure with one or several actors or the arena as a whole. Part of the political process is to mobilize social support by other social actors and to influence public opinion (Renn 1992c, pp. 183-4).

Media power does not operate in a social vacuum. Media dissemination of a message is a social process involving exchange of ideas and information between two parties. Information from the media can either enhance or weaken ways of understanding. The influence of any particular message relates to the value of a particular item of information or a specific story in a social context and people's willingness to reiterate what they have read or seen (Eldridge, Kitzinger & Williams 1997, p. 165). Although media is not the audience's only source of information, the burden of good journalism is to seek information which do not fit and develop them into critical accounts (Philo 1999, p. 283).

Jones and Xiao (2003) considered the media as a vehicle for corporate disclosure. Bearing in mind that the audience wants more information from the organisation, about changes in the economy and society, the media and the organisation should constructively think about these information needs, despite the major perceptions of the organisation on the media and vice versa. The first major perception of the organisation on the media is that mass media representation of the organisation will tarnish the organisational image through writing about the bad and ignoring the good. Secondly, the media is anti-organisation, is biased, and tend to show the organisation as insensitive to social needs. Media favours public interest groups. Thirdly, the media are too powerful.

On the other hand, the first major perception of the media against the organisation is that the organisation covers its wrongdoings. Secondly, it is manipulative, and sometimes deceptive on information about itself. Thirdly, the organisation has unrealistic expectations about how it should be treated and fourthly, business is arrogant and self-deluding (Hoge 1985, pp. 296-297).

One of the reasons that the organisation may consider the media exposure as a risk is due to the fact that from a different perspective, the media is seen as a watchdog for accounting fraud (Miller 2006, p. 1001). The press rebroadcasts information from other sources such as analysts, auditors and lawsuits as well as from their own investigation.

Miller stated that the media plays a dual-role whereby the business-oriented press is more likely to undertake original analysis whilst non-business press rebroadcasts. His study found that the determinants of press coverage include public interest and investigation costs (Miller 2006, p. 1030).

The paragraphs above discussed information communication, i.e. internal information communication, external information communication and the mass media influence. The next section will give some thoughts on the literature review and this research.

Some thoughts on the literature review and this research

The first section of this chapter examined the stewardship-accounting role of management, 'accountingisation' and risk. It seems that through the modifications in the recording methods for stewardship accounting, the management has increasingly made the records less transparent to the owners. This is worsened by the requirement of adherence to accounting rules by professional bodies, such that lay persons would find financial statements filled with accounting jargon, further limiting transparency.

Economically speaking, the preparation of financial statements itself is an art of balancing the needs of the different users. The company must be careful so as not to disclose too much information, making them vulnerable to competitors. At the same time within the business world, owners and potential investors need information as to what investments would give best returns. Thus the need arise to compare financial information to estimate the best companies to invest in.

The concept of using financial statements for comparative purposes is quite different in the statutory organisations in Malaysia. Prior to the year 2000, non-specificity of terminology in the rules and regulations enabled some statutory organisations to produce financial statements which have limited longitudinal comparability. Longitudinal comparability is stressed because there is no necessity for investors to compare between statutory organisations since each was set up with its own objectives. This limited longitudinal comparability hampers efforts to measure the performance of such organisations. In Malaysia rules and regulations to standardise disclosure to facilitate uniformity, thus promoting longitudinal comparability, was only made in the year 2000. Nevertheless, despite the lack of rules and regulations on the financial reporting, it seems that other statutory organisations are producing financial statements similar to that produced by the private sector enabling easy access and comparability, and because of the ease of comparison, the financial statements seems to be more transparent[5].

Even though there is no need for comparison of the financial statements of the statutory organisations, because the statutory organisations invest the funds contributed into them to generate profits to satisfy different objectives as specified in the incorporating Act, organisations which received lesser returns were often

[5] Easy access means the financial statements are given free to anyone who has interest in them. Comparability was facilitated due to usage of standard terms to represent items in the financial statements throughout the years 1996 to 2003.

criticised by their owners[6]. In the statutory organisations, it seems that the attitude of the management itself plays a role in determining the amount of disclosure. Another deciding factor seems to be how long the management have been in office, i.e. how well they know the organisation. The experience and the background that the management have also seem to influence their disclosure[7].

The second section is on risk perception. This section mainly discussed several major sociological perspectives on risks, but due to the application of the social arena metaphor and the cultural theory to this study it was explained in greater detail compared to the others. Although there is vast literature on cultural theory, it seems that Hofstede's organisational culture is the most prominent. However, Hofstede's theories could not be applied to this research because Hofstede emphasized on inter-cultural organisations, having different ethnicity and beliefs and living in different countries.

The case organisations in this research are both operating within Malaysia and are comprised of individuals, a majority of whom are from the same ethnicity and race. Thompson, Ellis and Wildavsky's cultural theory (1990) apparently will be most successful in explaining most of the findings, i.e. Although the subjects of the study have the same culture, they may have different risk rationalities, which can result in different attitudes towards reporting and the consequent disclosure or non-disclosure. The cultural theory explains behaviour of the organisation and persons within the organisation. It also explains the behaviour of the individual policy systems within the social arena.

However, the interactions between the different policy systems are perhaps best explained by the social arena metaphor which shows the movement mobility of members of the different policy systems within the arena as well as the risk reporting between the different policy systems. The subsection on the social arena discussed a

---

[6] See percentages of negative reports in the media in Chapter Six.

[7] Management of the Armed Forces Fund has more experience in profit making organizations, since they are also the management of other Main Board group of companies and has had a long tenure in the organisation. Management of the Pilgrims Fund has normally had a short tenure. The present Chairman is the first with a business experience, i.e. he was involved in privatization of the Malaysian Postal Service prior to joining the Pilgrims Fund.

way of conceptualizing risk debates within the social sciences. There are different policy systems within the arena. The hierarchy of control seems to start at the political institution. Their findings are communicated to the social arena by the issue amplifiers, i.e. news reporters, web bloggers who each have their own motives. For the economic-based issue amplifiers, the more interest they generate, the more they profit. On the other hand, if they have not seen possibility of profit from their venture, they most probably will not report any issues[8].

The third section discussed the risk reporting. This is divided into two sections, accounting disclosure and information communication. Accounting disclosure includes risk disclosure, accountability, transparency and regulations, as well as disclosure and culture. Information communication aspects of risk reporting, focusses on both internal and external information communication and the influence of the mass media.

With the mandatory requirement that financial statements of the case organisations be prepared according to the standards adopted from the private sector, there has been a shift in some value-based organisation to report economic-based information in accordance to the law. During the period 1996-2003 the Auditor-General has given a higher number of clean reports to statutory organisations, demonstrating that the statements have been prepared in a true and fair manner. However, one should bear in mind that clean audit reports do not mean that the organisation has satisfied the information needs of its audience. The benchmark is that clean audit reports represents an 'economic' meaning of 'clean'. The economic-based report would certify satisfaction of the requirements of economic-based regulations. This may not satisfy the requirements of the different policy systems within each of the case organisation's social arena.

The report would satisfy the needs of the economic-based user in economic-based statutory organisations but would have neglected the needs of value-based users in value-based organisations. It is expected that the value-based users will make their

[8] Some statutory organizations has numerous reports in the newspapers, others have very few. For more information, refer to the findings in Chapter Six.

concerns heard. It is not surprising therefore, when they used the media to air their needs for more disclosure, especially on issues relating to the values they uphold.

Summary

This chapter was intended to give an underpinning idea of the research. The first section examined the stewardship-accounting role of management, 'accountingisation' and risk. The section on risk perception mainly discussed several major sociological perspectives on risks, but due to the application of the social arena metaphor and cultural theory to this study these were explained in greater detail compared to the others. Together they form the two main concepts underpinning this research.

The third section viewed the literature on risk reporting, divided into accounting disclosure and information communication. Accounting disclosure discussed risk disclosure, accountability, transparency and regulations as well as disclosure and culture. Information communication focused on both internal and external information communication and the influence of the mass media. The next chapter will discuss the research methodology and methods.

CHAPTER 3 RESEARCH METHODOLOGY AND METHODS

Introduction

The previous chapter analysed the literature. This chapter intends to explore the methodology and methods of the research. Due to the fact that this research investigates risk perceptions, risk reporting and the social arena, the methodology used will not just concentrate on the qualitative aspect but also on the quantitative, where the measurements of the frequency of risk disclosure in the Annual Report and the media are involved.

The social arena metaphor of risk debates (Renn 1992c) forms one of the two concepts underpinning this research. In Renn's (1992c) study he looks at the different policy systems within the arena. The theory he uses considered each individual policy system and his social arena metaphor of risk debates depicted how the interactions between the different policy systems influence policy making. Other accounting researchers (Georgakopoulos & Thomson 2005, 2006, 2007) have also used this theory and applied the social arena metaphor. Applying Renn (1992c) to this research, where the analysis on risk perception and the interpretation of the arena metaphor are subjective and dependent on culture, beliefs and experiences, the methodology attempts to interpret the subjectivity; thus adopting an interpretive/qualitative approach on the subjective paradigm.

As opposed to the objective paradigm, the subjective paradigm focuses on meanings to try to understand what is happening. The understanding of these meanings is neccessary when inductively trying to consider the risk rationality of the individual policy systems within the arena. Towards this end, this research applies both the four rationalities (Renn 1992a, p.74, Schwarz & Thompson 1990, p. 9 and Adams 1995, p.37) and cultural theory on risk perception (Schwarz & Thompson 1990, Thompson, Ellis & Wildavsky 1990).

Cultural theory is the second conceptual underpinning in this research. Besides looking at each policy system individually, the subjective interpretivist stance also requires looking at the totality of each situation and to develop ideas through induction from data (Easterby-Smith, Thorpe & Lowe 1991). Thus, the research involves a mix of both qualitative and quantitative methods. Within subjective reality, where what is perceived as effective from one person's point of view may not be so in another's, there exists no one essence of reality and no absolute laws. What is effective or 'true' varies, depending on the observer or the subject. It is subjective, depending on the perception of the subjects. The aim is to understand people's interpretations and perceptions; using atomism to understand the whole, on the basis of the parts and at the same time, using holism to understand the parts on the basis of the whole. Saren and Beech (2003, p. 10) very clearly showed the relationship between ontology, epistemology, methodology and techniques, and the approaches taken for this research have been circled (see Figure 4).

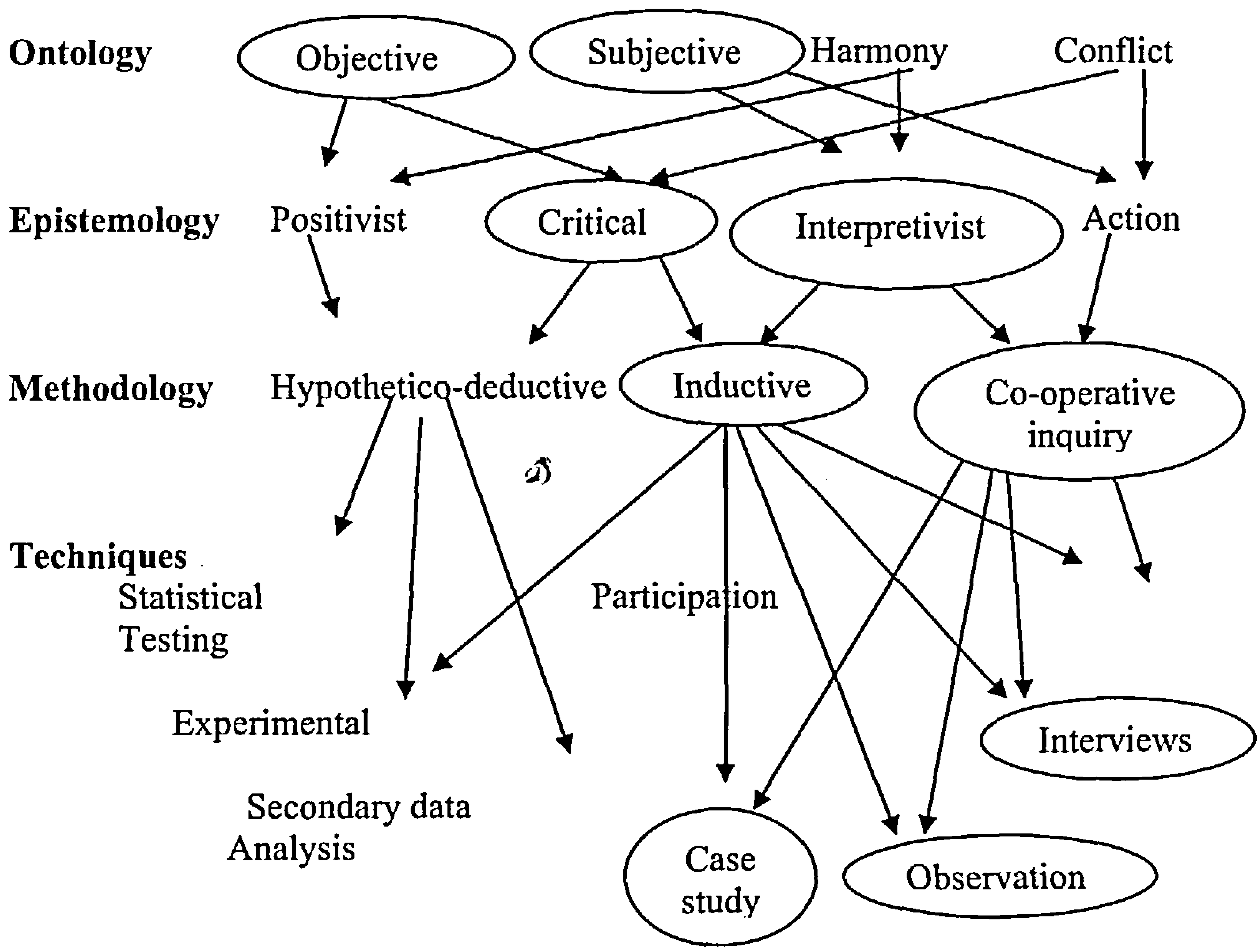


Figure 4: The research philosophy approaches for this research

The following four sections will discuss the research ontology, epistemology, methodology and methods.

Research ontology

Aristotle argued that knowledge is gathered by observation and categorisation, and he challenged the existence of ideal forms. He established that through repeated observation of particulars, an understanding of the properties of an environment is formed and these general properties are open to logical extension and analysis (in Ryan, Scapens & Theobald 2002, p. 11). However, the same could not be said would happen in a different space and time, in different environmental conditions. There are questions as to the reality of events; how risks are perceived within the social arena; and risk reporting.

An issue is in bringing together the appearances of reality (what is perceived) and the reality of the thing in itself. Kant's (in Ryan, Scapens & Theobald 2002, p. 15) transcendental idealism tries to do this by stating that the notion of discrete objects as knowable in an absolute sense is wrong, but rather they are known by the application of certain principles of causality, space and time; that these principles are knowable a priori, i.e. deductively, from a general principle to the specific expected facts/effects; through the use of pure reason and are also synthetic in that they are true propositions about the world. Kantian philosophy states that reality is mentally constructed whereas the common orthodoxy in the social sciences is that reality is socially constructed.

This Kantian philosophy was later taken up by the critical realist who argues that naïve realism is clearly problematic and that reality does not subsist in the 'surface layer' of objects (Bhaskar 1997). For example, the laws of behaviour (such as laws of physical motion or the equations of quantum mechanics) have always existed – irrespective of their discovery by human beings. Relativism on the other hand, contains ideas which argue that truth is relative to the beliefs of the observer, and theories are socially constructed.

The research ontology gives what is believed as the 'reality' – the way things are and how things really work (Coulson & Ciancanelli 2003). From the title, and looking at the first, second and third research hypotheses, this is a subjective research, i.e. implied by suggesting the study of perception and values. At the same time, due to the second, third and fourth research hypotheses, reports are classified as objects i.e. what and how much is in the report, and how it is categorised; are representations of risk perspectives. Therefore, the research ontology represents a qualitative/subjectivist position in particular and will be discussed later as the interpretivist methodology.

Research epistemology

The research epistemology is adopted from the critical and interpretivist paradigms. These are employed to investigate how the social reality is created, since the research is concerned with understanding the social world; trying to be aware of the social character of daily life. One of the central motives of qualitative research is to identify in what ways the people being studied understand and interpret their social reality (Bryman 1988, p. 8). In the research, theory would be used to provide explanations of human intentions and adequacy is assessed through logical consistency and subjective interpretation. In the interpretivist paradigm, Ryan, Scapens and Theobald (2002, p. 42) quoted the dominant assumptions by Chua (1986) and slightly adapted it, "Reality is socially created and objectified through human interaction. Human action is intentional and has meaning grounded in the social and historical context. Social order is assumed and conflict mediated through shared meanings."

For this research, the critical approach is chosen because an evaluation is needed on the financial reports so as to be able to deduce whether the risk reporting has in been made. For the second research hypothesis, the critical approach should be able to scrutinise the reports for example, in what categories has risk been reported, where in the reports are risks disclosed and who are the ones disclosing the risks. The critical rationality determining reporting practice approach should also be used when scrutinising the media, for example who reports the risks, what are they reporting and how many times are they reporting it. On the other hand, the interpretivist paradigm will be used in proving the first, second and third research hypotheses, i.e. interpretation of the subjective factors such as risk rationality of the case organisations, the individuals within it and the different policy systems.

Saren and Beech (2003) stated that the interpretivist paradigm is socially constructed; reality is shaped by social, political, cultural, economic, and ethnic and gender values; crystallized over time. Morgan and Smircich (1980), in their subjective-objective debate within social sciences pointed out that in the subjective-objective continuum, the reality as social construction lays on the subjective part of the continuum, where man is viewed as the social constructor, the symbol creator. Reality appears as real to individuals because of human acts of conscious or unwitting collusion. Epistemologically, how people come to know what they know', is actually knowledge (Morgan & Smircich 1980).

Research methodology

The methodology is actually the theory guiding the choice of the methods and justifying why a particular method(s) have been chosen. It is the relationship between the researcher and what can be known, linking to epistemology. This research follows the inductive and co-operative inquiry methodology. Towards the subjective end in the subjective-objective continuum, reality appears as real to individuals because of conscious human acts or of collusion. Using cooperative inquiry means doing a joint-action form of work to investigate the phenomenon.

With reference to Morgan and Smircich's network of basic assumptions (1980, p. 492) (see Table 8), the core ontological assumption of this research is that reality is a social construction. Correspondingly, the basic epistemological stance is to understand how social reality is created. The favoured metaphors, is language game as well as culture (see discussion in the next paragraph) and the research method is hermeneutics. The methodology lies towards the subjective end of the subjective-objective continuum (Morgan & Smircich 1980), trying to understand meanings of what is happening, looking at each situation in its totality and forming ideas from data.

In this study, the favoured metaphors consists of both language game and culture because the study involves both analysing the interpretation of the interviews, i.e. words used to express feelings; and the interpretation of the Annual Financial Statements, i.e. words used for risk reporting. It also favours culture because culture has an impact on how the respondents in the study react. Although this involves two different stances in the continuum, Morgan and Smircich (1980, p. 492-493) stated that, "The transition from one perspective to another must be seen as a gradual one, and it is often the case that the advocates of any given position may attempt to incorporate insights from others."

Research methods

Specifically, under the inductive method, the researcher gathers evidence, conceptualises the evidence and theorizes, i.e. doing 'a posteriori' argument. In other words the research will interpret the situation, i.e. what reality is. Using co-operative inquiry the research methods will be used to enable a critical interpretation of the case organisations. Research evidence could mean any representation of the situation; but in this research, the focus is on risk perception and risk reporting. The data gathering method that would be pursued is case study which incorporates interviews, questionnaires and documentation review. The emphasis is on social as well as economic view of operations and the understanding that human is sense-making rather than objects of study.

Considering the research objectives and hypothesis, this research is based on case studies because this method is useful in answering the research questions, what is happening and why it is happening; and is concerned with "the detailed examination of a single case" (David & Sutton 2004). As stated by Yin (2003, p. 1-2):

> "As a research strategy, the case study is used in many situations to contribute to our knowledge of individual, group, organizational, social, political, and related phenomena. Not surprisingly, the case study has been a common research strategy in psychology, sociology, political science, social work (Gilgun 1994), business (Ghauri & Gronhaug 2002) and community planning...In all of these situations, the distinctive need for case studies arises out of the desire to understand complex social phenomena. In brief, the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, organizational and managerial processes, neighbourhood change, international relations, and the maturation of industries."

Table 8: Network of Basic Assumptions Characterizing The Subjective-Objective Debate within Social Science
Source: Morgan and Smircich (1980, p. 492).

	Subjectivist Approaches to Social Science					**Objectivist Approaches to Social Science**
Core Ontological Assumptions	reality as a projection of human imagination	reality as a social construction	reality as a realm o' symbolic discourse	reality as a contextual field of information	reality as a concrete process	reality as a concrete structure
Assumptions About Human Nature	man as pure spirit, consciousness, being	man as a social constructor, the symbol creator	man as an actor; the symbol user	man as an information processor	man as an adaptor	man as a responder
Basic Epistemological Stance	to obtain phenomenological insight, revelation	to understand how social reality is created	to understand patterns of symbolic discourse	to map contexts	to study systems, process, change	to construct a positivist science
Some Favored Metaphors	transcendental	language game, accomplishment, test	theatre, culture	cybernatic	organism	machine
Research Methods	exploration of pure subjectivity	Hermeneutics	symbolic analysis	contextual analysis of Gestalten	historical analysis	lab experiments, surveys

It is also well suited for studying the dynamic reporting in the media including the internet (Brenner and Kolbe 1996; Eldridge, Kitzinger & Williams 1997 and Kitzinger, 1999).

With regards to the research objectives, this case study does not intend to modify existing theories, but to conduct exploratory research. This exploratory approach, seeking basic insights, seems sensible given that a study on risk research in statutory organisations in Malaysia is a relatively new area. However, it is not the intention of this research to do a comparative study on the two case organisations, since both are "unique" organisations (Yin 2003, p. 40) with their own incorporating legislative Acts. This research also represents a "longitudinal case: studying the same single case at two or more different points in time" (Yin 2003, p. 41) due to the analysis of risk reporting in the Annual Financial Statements between the years 1996 to 2003. Recognising the importance of case boundaries, the findings from this research which represents a case study on two unique organisations over a period of time, would therefore not be generalisable to other statutory organisations in Malaysia. Thus, any theoretical analysis derived from this research would only be applicable individually to each case organisation.

With regards to research methods, the case study draws on three different sources of data: interviews with the organisations and members of the social arena; two sets of questionnaires, the first on risk rationalities of individuals within the organisations and the second on the attitudes of the contributors and a review of hardcopy and electronic documentation in web searches and e-mail responses. This research uses case studies incorporating interviews, questionnaires and documentation review since the mix of these research methods each have their own merits. As stated by David and Sutton (2004, p. 45):

> "The use of mixed methods is the explicit attempt to gain some benefit from different methods from across the different spectra. It is an attempt to get the best of all the available options."

Amongst others the use of the interview method permit better understanding of meaning since answers may be solicited not only verbally but also through body language. The use of questionnaires permits a wider respondents base otherwise unreachable due to limiting constraints such as money and time. The use of documentation review allows access to primary information sourced from both case organisations. "The use of mixed-method is likely to increase the quality of final results and to provide a more comprehensive understanding of analyzed phenomena." (Sydenstricker-Neto n.d., p.1). Similarly, Burke Johnson and Onwuegbuzie (2004, p.14) stated "A key feature of mixed methods research is its methodological pluralism or eclecticism, which frequently results in superior research (compared to monomethod research)."

Throughout the process, the researcher applies the four rationalities (Renn 1992a, p. 74, Schwarz and Thompson 1990, p. 9 and Adams 1995, p. 37) and cultural theory (Douglas 1966 and Thompson, Ellis & Wildavsky 1990) to the findings from the interview and questionnaire methods to capture the risk perception thus the risk rationalities of the different policy systems. In addition, the review of documentation seeks to supplement the findings derived from both the interviews and the questionnaires. Although it is apparent that the research method which would best secure the meanings from the different policy systems is the interview method, there are time and financial costs that limit the quantity of interviews that could be made. Therefore the researcher has to resort to other means such as the questionnaires and the documentation review.

The main disadvantage of the questionnaire is that there is no personal communication between the researcher and each respondent which may prove crucial in a qualitative study. The main limitation of documentation review is that the documents only reveal what the organisations want to disclose. At times, this may not fulfil the information needs of the research. Findings from the mix of the three methods are incorporated for each case study. The social arena metaphor or risk debates (Renn 1992c) is then applied to the arena of both case organisations giving a graphical representation of the arena metaphor.

The above section discussed the risk philosophy in general whilst the next section will discuss issues on research methods including choice of cases, the years chosen for the Annual Financial Statements, the problems of accessibility, control and the secrecy oath, the consent to research and the research methods, i.e. interviews, questionnaires and documentation review.

Issues on research methods:

Choice of cases

Although the main intention was to research on the Pilgrims Fund, being the unique financial institution set up to facilitate pilgrimage, the researcher has contacted five other similar financially autonomous organisations; four of which are statutory bodies and one a co-operative operating in similar environment although with different turnover volumes. Only one other statutory body responded[9]. The General Manager of the Co-operative gave verbal agreement to the research. Subsequent findings showed that the co-operative was governed by a different set of rules and regulations and comes under the responsibility of a Minister-in-charge of all co-operatives. This renders it different from the statutory bodies. The General Manager was arrested for breach of trust one week after he gave an interview for this research. The following section is subdivided into similarities and differences of the case organisations.

Similarities

The respondent statutory bodies are two out of the four financial institutions which are recognised by the Malaysian Parliament as a Bumiputera Trust Agency[10] which entitle them to special privileges under the Malaysian constitution and 65% entitlement of shares from the Ministry of International Trade and Industry (MITI). Both organisations are governmental financial institutions which collect vast amounts of money from their contributors cum members cum depositors cum customers, mainly from the same cultural group, i.e. belonging to the same ethnic group and having the same religious belief, enabling the organisations the financial strength to contribute to the economy.

[9] This other respondent was the Armed Forces Fund.
[10] http://www.parlimen.gov.my/hindex/pdf/DN-04-08-1998.pdf

Both organisations are required to submit to government regulations concerning them in addition to their own prescribing Act. The Armed Forces Fund operates in largely the same legal, economic, ethnic and religious environment as the Pilgrims Fund. Similar to the Pilgrims Fund, the Armed Forces Fund is also a statutory body with its own Act of Parliament.

Differences

The Pilgrims Fund is a unique organisation in terms of the Malaysian Federal Constitution because, normally, Religious Affairs come under the jurisdiction of the different State Governments. Pilgrims Fund was established by an Act of Parliament; therefore it is under the jurisdiction of the Federal Government and is the responsibility of a Minister without portfolio in the Prime Minister's Department. The earlier Pilgrims Management and Fund Act 1969 (Act 8) was repealed and replaced by a new Act, the Pilgrims Fund Act 1995 (Act 535), effective 1 June 1995. With this legal change, many powers that were vested in the Monarch, as the Head of Islamic Religion, in the earlier Act were transferred to the Minister. The Pilgrims Fund has had some major changes in its management throughout the period of study.

On the other hand, the Armed Forces Fund reports to the Minister of Defence ever since its incorporation. There have not been any major changes to its incorporating Act, the Armed Forces Fund Act 1973 (Act 101).

The years chosen for the Annual Financial Statements

At the time of data collection, the latest Annual Report secured was that of the year 2003. The years 1996 to 2003 were chosen to represent the years before, during and after the financial crises within Asia in the later half of 1997 and as a direct impact of the September 11 bombings in the United States, i.e. from when the economy was booming; through times of the Asian financial crisis and in the aftermath of the bombings, through the recovery period to 2003. It should allow enough time for compliance to the Malaysian Accounting Standards, later known as the Financial Reporting Standards (FRS) a 'blanket' one rule for all mechanism imposed on the statutory organisations effective from the year 2000 Annual Financial Statements so as to enhance reporting in economic terms as contradictory to some of the value terms associated to the organisations by the users. This 'blanket' mechanism apparently was not very successful in creating comparable reports proven by the introduction in 2007 of a new more detailed guideline on the preparation of financial statements for statutory organisations, including the case organisations, effective for the 2007 financial statements.

Problems of accessibility, control and the secrecy oath

In terms of the research methods, the researcher employed only methods ordinarily accessible to the general public, i.e. the information derived from the case organisations would be similarly distributed by the organisation to the general public. There are access problems such as: a varying degree of willingness to accommodate the research interview requested with time constraints being the main reason given for not entertaining the request, besides stating that the study is not related to their function.

In view of the secrecy oath which every employee has to pledge on initial employment, restricting them from communicating any organisational information to external parties, data collection was quite restricted. The researcher approached the top management of each organisation for their consent to research. Therefore, interviews with personnel were conducted and the questions were asked by the researcher only after prior approval by the top management. Similarly, the researcher does not have control over how long respondents were given to complete the questionnaires, since in each organisation the questionnaires were left, to be collected in a period of between seven to ten days' time, with a manager who was interviewed[11]; with directions to distribute them to the staff possibly from different departments, including accounting, auditing, information technology, human resources, strategic planning and risk management.

Consent to research

The Armed Forces Fund promptly responded to the research request. Their Strategic Planning Manager called the researcher two days after the letter for consent to do

[11] In the Pilgrims Fund, the Branch Operations Manager and in the Armed Forces Fund, the Processing and Information Technology Manager.

research was mailed to the Chairman of the board. This is quite extraordinary because organisations are usually quite strict about their expenses, and calling a mobile in Malaysia could be quite expensive. The researcher was informed that the Strategic Planning Manager was requested to give full assistance for this study by the Chairman himself acting as a precedent as no other researcher was ever given such degree of attention.

Meanwhile, however, there is some degree of reluctance in the Pilgrims Fund where it initially did not respond to the requests sent. However, the researcher made repeated phone calls and managed to talk to the Chairman's Personal Assistant and was referred to a manager in the Corporate Communications Department.

The above section referred to the issues on research methods. The following section will discuss on the methods used.

Research methods - Interviews

The interview is a research method particularly well suited to gather a broad range of in-depth information from a few subjects. The researcher could analyse the results to obtain a 'bigger' picture (Suler 1995), could discover how individuals think and feel about a topic and why they hold certain opinions; and could be used to obtain information on topics which people may feel uncomfortable discussing otherwise. An interview adds a human dimension to impersonal data, deepens understanding and explains numerical data[12].

The semi-structured interview for this research combines the advantages of not deviating from the main purpose of the interview and allows the researcher and interviewee to engage in flowing conversation. The questions can be adjusted according to the way the interviewee is responding, and the interviewer may stimulate responses by adding self opinion. This structure requires much more skill, but is far more interesting to conduct and reveals more about the interviewee (Suler 1995).

[12] http://www.evalued.uce.ac.uk/tutorial/4c.htm 05/09/2007

The semi-structured interviews for this research were conducted on people within the organisation as well as at a location outside the organisation. This is done to see if there is any difference in the response that will be given to the interview questions. Table 9 shows a list of the interviewees.

Table 9: List of interviewees

Institution	Interviewees
Pilgrims Fund	Branch Operations Manager Corporate Communications Manager Human Resource Development Manager Information Technology employee (off-location) Ex-pilgrim (1) (off-location)
Armed Forces Fund	Strategic Planning and Quality Implementation Manager Processing and Information Technology Manager Senior Internal Auditor Risk Manager Ex-serviceman (1) (off-location) (Served more than 10 years, Royal Malaysian Air Force, retired post-1973) Ex-serviceman (2) (off-location) (Served more than 10 years, Congo ex-serviceman, retired post-1973) Ex-serviceman (3) (off-location) (Served less than 10 years, Malaysian Territorial Army, retired pre-1973)
Rule Enforcer	Ministry of Finance Officer responsible for statutory bodies
Expert	Chief Executive Officer of the Malaysian Institute of Corporate Governance Integrity Inspector from the Integrity Institute of Malaysia

An example showing the main questions asked and the reasons why these questions were asked is given in Table 10. Due to constraints on the period of interviews and sometimes the length of answers given, not all questions have been raised and not all answers were secured during some interviews.

Table 10: Main interview questions

To interviewees within the organisation:
1. What are your duties? Do you have a works procedures manual? Could you show me them? Who do you report to? Reasons asked: To see if segregation of duties were practised, to check internal control procedures and to find out if employees knew the line of reporting. 2. What do you understand by the term risk reporting? How and to what extent do you think your organisation has made risk disclosures? Reasons asked: To find out what employees understand by "risk reporting" and to find out the extent of risk disclosures by the organisation from the employees' point of view. 3. How do you communicate risks within the organisation? How do you communicate risks externally? Who are the parties interested in the risk information communicated? Reasons asked: To seek the extent of risk communication within the organisation, as well as externally, and to identify the interested parties. 4. What do you see as risks? What do you think are risks in the organisation? What external risks affect the organisation? How do you think the organisation react to this risk? Does the organisation see this as a problem? Reasons asked: To know the perceptions of risks internal and external to the organisation and to relate employees' perception of risks to the way in which they see the organisation reacted to the risks. 5. Do you think the individual perceptions of people within the organisation are important in tackling problems relating to risk? Reasons asked: To see how united or divided the employees' perceptions were.
To interviewees outside the organisation:
1. Are you satisfied with the services you received from the organisation? Would you recommend how they could improve? Do you think they could have done better? Did you feel left out or uncared for? Would you consider the organisation have fulfilled its objectives? Reasons asked: To secure positive or negative perceptions on the organisation from the customers' view point. 2. How are the audit report accounted for once the annual audit are done? What follow-ups would you expect? Where are the records kept? Reasons asked: To secure perceptions on the organisation from the auditor's view point. 3. Where does your funding come from? Are you regulatory? Are you satisfied with the performance of the organisations? What improvements would you suggest to improve them? What is the role of your Institute in this? Would you say that risk reporting in the organisation could have differed with different risk perceptions? Reasons asked: To establish the relationship between different policy systems within each organisation's social arena and to form an idea of the relationship between risk reporting and risk perception. 4. How is the Integrity Instituted established? Could you show me the documents that led to the establishment of this organisation? Do you think that the performance of the organisations could improve? Could you suggest how? Do you think risk perception within the organisations have influenced their risk reporting? Reasons asked: To identify the purpose of existence of different policy systems and their role in improving the performance of the organisation. To identify any relationship between risk perception and reporting.

Research methods - Questionnaires

The questionnaires were distributed to people within the organisation as well as at a location outside the organisation. This is done to see if there is any difference in the response that will be given to the questions. The purpose of issuing questionnaires is to obtain information from other respondents not interviewed due to time and resources constraints.

The questions for the questionnaire were adapted from a study by Thomson (2004). The questions were asked using the five-point Likert scale. In this study, the five-point Likert scale was chosen because it does not allow for the neutral point of view but instead, allow for the "not applicable" option. Although neutrality could be chosen as the respondent's true stance on the question, neutrality could also be chosen to avoid answering the question or to avoid further scrutiny of the question. The scale is chosen therefore, to force the respondents to think before they answer each question. At the same time, due to the different set of respondents (i.e. the test group of full-time undergraduate accounting students majoring in risk management and two sets of part-time students studying for the professional examinations of the Malaysian Institute of Certified Public Accountants (MICPA) or the Association of Chartered and Certified Public Accountants (ACCA)) that the same set of questionnaires were given, there are bound to be questions that the respondents see as not applicable to their situation, thus the availability of the option. These three groups of students will form a control on the response to the questionnaires.

The questionnaire was made up of fifteen sections each asking the respondents four questions. The topics of the sections were belief, effectiveness of control measures, control, risk exposures, attitudes towards risks, organisational teamwork, peer influence, work supervision, fraud, training, organisational property, computer security, physical security, employment and communication channel.

Each question is analysed according to the four myths as per Douglas (1966), Douglas and Wildavsky (1983), Schwarz and Thompson (1990), Thompson, Ellis and Wildavsky (1990), Adams (1995), i.e. how a person from each rationality will answer. Table 11 gives an example of the interpretation protocol for one section of the research. A more extensive interpretation protocol for the questions answered is given in Table A9 in the appendix.

A different set of questionnaires which is much shorter was also emailed and manually distributed to persons who have savings in the Pilgrims Fund. This questionnaire was much shorter to obtain most response. The questionnaires are later either emailed back to the researcher or manually collected. Although the disadvantage of the email method is that it targets only a section of the market having an email address as well as a computer connected to the internet, the intention is to

Table 11: Analysis of questionnaire questions from the respondent's point of view.

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

	Effectiveness
5	A control measure is effective if it could stop risk exposure.
	H – Agree. (Binding prescriptions.)
	I – Strongly disagree. (Relatively free from control by others.)
	E – Disagree. (Little respect for externally imposed rules.)
	F – Agree. (Regulation is at a maximum.)
6	Control measures are never fully effective.
	H – Agree. ('Never fully' - Rules are managed by a capable institution. Strong group boundaries and binding prescriptions.)
	I – Agree. (Relatively free from control by others.)
	E – Agree. (The world is an unforgiving place and the least jolt will trigger its complete collapse.)
	F – Disagree. (Regulation at a maximum.)
7	Effectiveness of control measures reduces over time *(Adams)*.
	H - Strongly agree. ('Effectiveness ... reduces over time.' (Rules are managed by a capable institution. Binding prescriptions, everyone knowing his/her place.)
	I – Agree. (Little respect for externally imposed rules other than those imposed by nature.)
	E – Agree. (Non-interventionist.)
	F – Disagree. (Regulation at a maximum.)
8	Constant reviews are needed to maintain effectiveness *(Adams)*.
	H - Strongly agree. (Binding prescriptions.)
	I – Disagree. (Nature is benign. One is relatively free from control by others.)
	E - Disagree. (Constant reviews are arrived at democratically.)
	F – Agree. (Basically Hierarchist.)

secure the response of the would-be pilgrims from the younger generation. The respondents to the questionnaires which were manually distributed and collected varied in terms of their age. A copy of the questionnaire is given in Table 12.

Table 12: Questionnaire survey on keeping money in the Pilgrims Fund

1. Age: __________.(Reason asked: To identify if there is any change in the average age group of respondents. When the Pilgrims Fund was first established, the majority of the contributors were old aged persons, most with the intention of dying in the Holy Land, however, with the present advances in technology leading to better information communication, there seems to be more awareness in the younger generation to be contributors.)
2. How long have you kept your money in the Pilgrims Fund? (Reason asked: To form an idea on the values attached by the contributors to savings in the Pilgrims Fund. Longer savings period apparently shows trust and commitment as well as weaker economic standing, shorter period shows recent awareness.)
3. Why do you keep your money there? (Tick all that are relevant.) ☐ To do the Pilgrimage. ☐ For safekeeping. ☐ For the betterment of my religion. ☐ To manage my savings in an Islamic way. ☐ No risk investment. ☐ Their record of money not being stolen is good. ☐ I could not think of any better place to deposit my money. ☐ The Pilgrims Fund is the only organisation in Malaysia to use to perform the Pilgrimage. (Reason asked: To ascertain the values attached to the Pilgrims Fund by the contributors.)
4. Would you still save with the Pilgrims Fund when you have performed the Pilgrimage? (Reason asked: To ascertain religious values of the contributors).
5. Do you have savings anywhere else? (Reason asked: To ascertain religious values of the contributors).

Research methods - Documentation review

Documents reviewed include legal documents such as the Armed Forces Fund Act 1973, (Act 101), the Annual Report and financial statements of the case organisations for the years 1996 to 2003, the Pilgrims Management and Fund Act 1969, (Act 8), Statutory Bodies (Accounts and Annual Reports) Act 1980, (Act 240), the Auditor-General's Reports, the Pilgrims Fund Act 1995, (Act 535) and the Pilgrims Fund's special pull-out magazines on 5 January 2003 and 27 December 2003, the special promotional magazine entitled 'Lets aim for success' and the monthly news bulletins between January to June in the year 2005. These were sourced through the case organisations, public libraries, and by means of the internet, i.e. through the Auditor-General's and the Ministry of Finance's websites as well as through general google searches. The newspaper pull-outs from 5 January 2003 and 27 December 2003 were not in the archives of the e-newspaper and emails sent to the news agency as well as the Pilgrims Fund Chief Executive Officer received no replies. The method for data analysis will be discussed in a later section.

Limitations of the research

This section would explain the limitations of the research. The first limitation was regarding the organisations studied. The researcher avoided approaching politically problematic statutory bodies for example the Subang Golf Club which did not prepare its accounts since 1967 because non-reporting will render impossible trying to relate risk perception and risk reporting; or statutory bodies that were practically inaccessible to the general public and have concentrated on the top performing larger sized statutory bodies because they are assumed to have better reporting compared to the problematic bodies.

Secondly, in the process of getting the organisations' consent to the study, the researcher wrote to their top management for permission to proceed with this study. This was necessary for all governmental or non-governmental departments because they normally impose an oath of secrecy on all employees in the form of an agreement which each employee has to sign at first employment, expressly agreeing that they will not reveal any information which they knew by reason of their office to any outside parties. The only way that a person from outside the organisation could get any information is by protocol, i.e. approaching the top management who would then give either a written or verbal permission or agreement to the research being conducted. Only three of the six organisations responded, the first to do so being the Armed Forces Fund.

The Pilgrims Fund and another organisation verbally agreed to the study. Although, there has been no written response from these three organisations, their agreement to the research has enabled the researcher to attain some necessary information. However, this research is limited to only two of the three organisations due to the General Manager of the third organisation being arrested a week after he gave an interview and further requests for interviews were rejected by the secretary to the board. It was later found that co-operatives are bound by a set of rules and regulations which is different from that applied to statutory bodies. Being case studies, the results of the study would not be generalisable to all other organisations. Furthermore, generalisability is not feasible as each statutory organisation has a different incorporating Act and a different purpose of incorporation.

Thirdly, the data collection for the research, mainly the interviews, questionnaires and the documentation needed, were mostly accumulated during July and early August 2005 when the researcher was in Malaysia. The questionnaires were collected between seven to ten days from the date of the first visit. This time period was deemed necessary due to the length of the questionnaires, to give the respondents enough time for to response. Due to time and resources, i.e. monetary constraints it was not possible for the researcher to make more repeated journeys to Malaysia to collect further information from the organisations. However, supplementary documentation was found through internet searches and a set of questionnaires were also distributed via email.

Fourthly, although the scope of this study covers the risk perception of the people within the organisations towards risk, risk reporting, and the social arena of the organisations in Malaysia, the information attained during the study is limited to that made known to the researcher in her capacity as an outsider during the data collection. This is pertinent to the study because it represents the information that the general public could know on the organisations. It shows how much or how little the organisation is willing to communicate and disclose to the general public who would otherwise have no access. Therefore, some classified information on the internal controls on risk within the organisations as well as measures to maintain organisational reputation, if any, has not been available for this research.

Fifthly, the experts interviewed and emailed mentioned about an integrity study, which was jointly conducted between the Malaysian government with the assistance of researchers from a public university. The findings of this major research on integrity of teenagers in school, has prompted the formulation of the National

Integrity Plan, which provides for the setting up of the Integrity Institute of Malaysia. This is an effort to help educate the new generation through integrity and instilling beliefs and experiences, with the hope to build a different risk perception for them from the present generation. However, the researcher found that this research was embargoed by the government and thus inaccessible. Lastly, the bibliography in this thesis shows the items specifically mentioned within the thesis. These materials also provide a basis for the ideas in this study.

The above section dealt with the research philosophy encompassing the research ontology, epistemology, methodology, methods and limitations of the research. The following section explains how the data will be analysed.

Data analysis

As this research involves three main data collection methods, i.e. interviews, questionnaires and documentation review, data analysis is done accordingly. Interviews were transcribed and significant themes extracted. Questionnaires findings were input into MS Excel to calculate simple percentages of the responses. Documentation review was divided into three sections. The reviews were generally based on the risk disclosure categories as per ICAEW (1998), the decision rules for risk disclosures (Linsley & Shrives 2006) and in the case of the Pilgrims Fund; as per an adaptation of Maali, Casson and Napier's (2006) benchmark of social disclosure in Islamic financial statements. Firstly, a basic count of how many times risk has been disclosed in each risk category in the Annual Financial Statements was made. Secondly, a basic count was made of the number of times risk reporting was made in each risk category by the media. The frequency of risk disclosure in the Annual Financial Statements was then compared to the frequency of risk reporting made by the media. This information is then compared to the significant themes from the interview and the questionnaires to answer the research questions.

Risk perception - Analysis of institutions

To study the risk perception of the individuals, initially, the questions were classified according to what risk rationality each individual would strongly agree to. This led to identification of the following rationalities to each question (Table 13).

Table 13: Identification of rationalities to each question – strongly agree

Hierarchists would strongly agree to	Questions 1, 7, 8, 9, 10, 12, 14, 15, 19, 25, 27, 29, 31, 32, 34, 36, 37, 38, 40, 45, 46, 48, 49, 50, 51, 53, 54, 59 and 60.
Individualists would strongly agree to	Questions 3, 11, 17, 18, 20, 26, 28, 42 and 43.
Egalitarians would strongly agree to	Questions 13, 22, 24 and 44.
Fatalist would strongly agree to	Question 55
Non strongly agreed to	Questions 6, 16, 21, 23, 30, 33, 35, 39, 41, 47, 52, 56, 57 and 58.

The researcher found that the responses to the other questions will not significantly be 'strongly agree' for any specific rationality. Therefore, due to the many numbers of questions to which the hierachists could be identified with; to supplement the above table, another analysis was done to triangulate, using the other extreme i.e. factors that the four rationalities would strongly disagree to, leading to identification of the questions that each would strongly disagree to in Table 14 below:

Table 14: Identification of rationalities to each question - strongly disagree

Hierarchists would strongly disagree to	Questions 11, 17 and 30.
Individualists would strongly disagree to	Questions 2, 5, 9, 10, 12 and 15.
Egalitarians would strongly disagree to	Questions 18, 28 and 35.
Fatalist would strongly disagree to	No relevant question.

The researcher realised that the questionnaires did not pay much attention to the fatalist rationality. This was not purposefully done initially, but fits well into the study because fatalists are not 'cooperative' people (since fatalists have a fatalistic rationality), living in the high grid but low group category and will not voluntarily have applied for employment in a hierarchist or egalitarian organisation in the first place.

The responses for each organisation will be used to determine their rationality. The results were averaged to find the average rationality of the respondents within the institution. This is in accordance to the original idea of cultural theory applying to organisations, instead of to individuals within the organisations (Thompson, Ellis & Wildavsky 1990). Once the average rationality of the respondents was determined, the results were reclassified into just two scales, agree or disagree to compare the outcomes from the two institutions.

As a control study, a similar survey was conducted on full-time undergraduate accounting students (S) majoring in risk management and two sets of part-time students (P) who are pursuing a professional accounting course (Malaysian Institute of Certified Public Accountants (MICPA) and Association of Chartered and Certified Accountants (ACCA)). The percentages were calculated based on the total responses for each question for agree and disagree questions only. This is to show how many percent of the respondents did answer the questions and those who did not chose 'not relevant' as their answers. The percentage of respondents who chose not to answer the questions or to choose 'not relevant' as their answer is not significant. Table 15 shows the findings from the control group.

Table 15: Findings from the control group

Students majoring in risk management	
Strongly agreed to questions	1, 2, 8, 9, 10, 11, 12, 15, 18, 23, 24, 25, 27, 29, 32, 38, 40, 41, 43, 47, 49, 50, 51 and 53.
Strongly disagreed to questions	17, 30, 52 and 55.
MICPA students	
Strongly agreed to questions	1, 2, 5, 8, 10, 11, 12, 14, 15, 18, 23, 24, 25, 27, 29, 30, 31, 32, 33, 34, 36, 37, 38, 40, 41, 42, 43, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 58, 59 and 60.
Strongly disagreed to no questions.	
ACCA students	
Strongly agreed to questions	1, 2, 8, 9, 10, 11, 12, 14, 15, 18, 23, 24, 25, 27, 29, 30, 31, 32, 33, 34, 36, 37, 38, 39, 40, 41, 42, 43, 45, 46, 47, 48, 49, 50, 51, 52, 53,54, 55, 56, 58, 59 and 60.
Strongly disagreed to questions	4, 6 and 17.

The responses from the control set, acted as a dummy for the actual findings. The students majoring in risk management strongly agreed to 16 out of the 29 (55%) questions that hierarchists would strongly agree to. They also strongly agreed to three out of the nine (33%) questions that individualists would agree to. They strongly agreed to one out of the five (20%) questions that the egalitarian would agree to. At the same time, they strongly disagree to two out of the three (67%) questions that hierarchists would strongly disagree to. This response showed that the risk management students had hierarchist-individualist rationality, as is expected since most of them would soon be employed in hierarchist-individualist business organisations such as audit firms or in the accounting department of various trading organisations.

The MICPA students strongly agreed to 26 out of the 29 (90%) questions that the hierarchists would strongly agree to, four out of the nine (44%) questions that individualists would agree to and one out of the four (25%) questions that egalitarians would agree to. This is very similar to the findings from the ACCA group.

The ACCA students strongly agree to 27 out of the 29 (93%) questions that hierarchists would strongly agree to, they strongly agree to four out of the nine (44%) questions that individualists would strongly agree to and they strongly agree to one out of the four (25%) questions that the egalitarians would strongly agree to.

It seems that both the MICPA and ACCA students strongly agree to the only question that fatalists would strongly agree to. This strong hierarchist-individualist mix is expected of professional accountants but their strong agreement to the fatalist rationality would also understandably signify that as accountants, although they could present the pros and cons of decisions, they do not have a final say on what decision would be taken by the higher authority, thus the agreement to the fatalist rationality. This is significantly evidenced by the results of this control group, given the fact that they are working in accounting or similar lines besides being part-time professional students.

The responses from the second set of questionnaires, the depositors within the Pilgrims Fund revealed their risk perception on the Pilgrims Fund. The analysis for this set of responses is based on the simple averages of the responses to the questions.

Risk perception - Interviews

Due to the small number of interviews and the short span of interview times which ranged from a few minutes to about an hour, all interviews were manually processed. Where permission was given, these were recorded on audio tapes. Where permission was not granted, the researcher made some notes after the interview relating to the interview conversation. The notes and the tapes were than manually processed, i.e. transcribed and coded. Repetitive information from the interviews was used to determine the attitude of each interviewee according to the four rationalities of cultural theory for example "I have done my job and after this the records will be filed...No further action on it!" and "It will go straight into the records, then it will be kept for filing" would imply a fatalist attitude, or "I don't think you should interview me, I am not related to your study!" and "Your study should not involve me!" is apparently an individualist attitude.

At the same time, the interviews were scrutinised to explore the communication used in the different organisations. This information was later incorporated into the empirical findings in Chapters 4, 5 and 6.

Risk reporting - Analysis of content

This section will discuss the method of data analysis of risk reporting according to the research objectives. Financial firms are risk management entities and can be expected to make significantly different types of risk disclosure (Linsley & Shrives 2006, p. 392; Bessis 2002) and therefore need to be studied independently. Beattie, McInnes and Fearnley (2004a) summarised the ways for analysing Annual Reports narratives which include subjective analyst ratings, disclosure indices, content analysis, readability studies and linguistic analyses.

Subjective analyst ratings involve quality of disclosure ratings by the analyst. Content analysis was developed as a research tool by early sociologists of the mass media, primarily for comparative purposes – its first use seems to have been in pre-1914 American studies of newspaper coverage of foreign affairs. It is a quantitative methodology which depends on two problematic assumptions: first, that one can readily distinguish verbal (or other) signs in a text from the reading "context", second, that such content can be measured "objectively" – that different readers faced with the same text would "measure" the same content. Media "content" may take a variety of forms, and content analysis was influentially used (see Peatman, 1944 and Lowenthal, 1944).

While this quantitative approach has been discredited by cultural theorists who are much more attuned to the active and subjective interpretations of texts, the underlying assumption about standardization has not, and content analysis is still employed in most arguments about media bias and media effects.

This study is not a study on disclosure quality because it does not intend to rate the disclosure quality of the risk reporting. In fact, it uses the cultural theorists' approach of active and subjective interpretation of texts. Firstly, the researcher has identified text used to represent items in the Annual Financial Statements of the organisations which incorporated the Balance Sheet, the Profit and Loss account, the Statement of Members' Contribution, the Notes to the Accounts; the Auditor-General's certificate, the Auditor-General's report, the management's reply to both, (if any); and their (non)-reoccurrences throughout the period of study. This scrutiny revealed significant risk points in the Annual Financial Statements during the period of study. The later part of the study involved classifying the risk items disclosed in the Annual Financial Statements into different risk disclosure categories (ICAEW, 1998), specifically identifying where (i.e., in which financial statement was the risk disclosed), when (i.e., in which year was the information disclosed) and how frequent the disclosures were.

Secondly, it employs an interpretation on other reporting channels, focussing on the internet, i.e. electronic newspapers and search engines. Due to the subjectivity of the interpretation and the importance of the reliability of the coding methods for valid conclusions to be drawn, Milne and Adler (1999) have discussed the approach taken by Krippendorff (1980) where three different types of reliability are identified: stability, accuracy and reproducibility. Stability means a coder being able to code the data consistently over time and 'can be tested by coding the data more than once' (Jones & Shoemaker 1994, p. 165). Although Milne and Adler (1999) report stability as being of least concern, it is not unimportant in attaining reliability of coding. Accuracy is concerned with how well the coding compares to a pre-set standard, and when more than one coder is introduced, then the problem of reproducibility arises.

The researcher performed the translation and the subjective interpretation of the internet articles. The initial research consisted of reviewing the research objectives and potential risk and risk management disclosures, and doing literature review. Reliability could be improved by producing decision rules that could be referred to. The decision rules used for the case organisations were adapted from Linsley and Shrives (2006). Some changes were made due to the fact that although the case organisations are basically financial institutions and are similar to Linsley and Shrives's (2006) study; they were not formed as companies under the Companies Act 1965, are regulated by a different set of rules and they do have their individual main objectives. The organisations will be studied individually based on their nature of business. The coding of each media article, once compiled was then revised again by the researcher, adapting Linsley and Shrives (2006) risk categories. Some subjectivity in coding is unavoidable even where reliability tests have been performed and this is made worse in risk studies as the definition of risk is open to interpretation (Linsley & Shrives 2006, p. 393) and the fact that the organisations have different operations.

Subjective interpretation could duplicate content analysis in using either the number of words, page proportions or sentences. Although words can be *counted* with a high degree of accuracy (Unerman 2000) they cannot be *coded* to different risk categories, without reference to the sentence, i.e., words can only be interpreted within the context of a sentence. Milne and Adler (1999) support the use of sentences stating that 'using sentences for both coding and measurement seems likely, therefore, to provide complete, reliable and meaningful data for further analysis' (Milne & Adler 1999, p. 243 in Linsley & Shrives 2006, p. 393). For this study, due to the nature of the summarised information disclosure within the internet, each article disclosed will constitute one risk disclosure. Repetitive disclosures of the same issue by the same or different sources will each count as one disclosure.

Although it would be easier to justify the use of a coding instrument that has been based on another study or published piece of work, it needs to be reiterated, however, that there has been limited risk disclosure research to date and hence there are few prior academic studies upon which a coding grid could be based.

The coding grid was arrived at after an analysis and categorization of the risk disclosures sentences in the Annual Report of the two organisations. This was adapted from Linsley and Shrives (2006, p. 401) due to the fact that although the organisations in this study are also financial institutions as in Linsley and Shrives' study, the regulations within which each of them operates are not, and they have their own objectives of incorporation, therefore making them unique. Therefore, some of the decision rules for the risk disclosure sentences were not applied to the case organisations. As stated by the Chief Executive of the ACCA in December 2005, Allan Bewitt, the impact of the reporting standards will differ from one company to another. Therefore instead of starting with the generalized categorization and building up the risk disclosures within the framework, for this study, the researcher has analysed the Annual Financial Statement disclosures and the internet to explore what are the risks that have been reported, grouped them together and then summarised the information.

The risk categorisation of the items in the Annual Financial Statements and the media articles are based on the issues raised and the main idea of the article respectively. This research will also adapt the expected disclosures (Maali, Casson & Napier 2006) to integrate it with the risk disclosure categories (ICAEW 1998). This integration should enable a break-down of the expected disclosures according to their risk categories to be applied to the Pilgrims Fund (see Table 16) which has expressly stated their compliance with Islamic *Shari'ah* law in the notes to their accounts within the Annual Report.

In exploring the risk reporting by the media, the researcher concentrated on the internet in order to measure the number of risk information communicated external to the organisation, i.e. those communication generated by organisational sources as well as those other than the organisation. The researcher used the internet search engines such as google.com.my and yahoo.com.my, typing in words such as 'Pilgrims Fund' or 'Armed Forces Fund' or a combination, such as 'Pilgrims Fund mismanagement' in the Malay language, as well as by using the free local newspaper archives search at www.utusan.com.my, www.harakahdaily.net, and www.thestar.com. my. The electronic newspaper, www.utusan.com.my provides an

Table 16: Expected disclosures (adapted to risk disclosure categories)

Area	Items to be disclosed	Risk disclosure category	Comments
Shari'ah opinion	1. Report of *Shari'ah* Supervisory Board	Strategic risk-Regulatory	
Unlawful (*Haram*) transactions	1. Nature of unlawful transactions	Integrity risk-Illegal acts	
	2. Reasons for undertaking such transactions	Integrity risk-Reputation	
	3. The *Shari'ah* Board's view about the necessity of these transactions	Strategic risk-Regulatory	
	4. The amount of revenue or expenses from these transactions	Integrity risk-Reputation	
	5. How the bank disposed, or intends to dispose, of such revenues	Integrity risk-Reputation	
Zakat (for banks required to pay it)	1. Statement of sources and uses of *Zakat*	Operations risk-Efficiency and performance	The statement required by AAOIFI includes *Zakat* and charity together
	2. The balance of the *Zakat* fund, and reasons for non-distribution	Integrity risk-Reputation	
	3. *Shari'ah* Board attestation regarding the computation and distribution of the funds	Strategic risk-Regulatory	
Zakat (for banks not required to pay it)	1. The amount due in respect of shares and deposits	Integrity risk-Reputation	
	2. The *Shari'ah* Board's opinion regarding validity of computation	Strategic risk-Regulatory	
Quard Hassan	1. Sources of funds allocated to *Quard*	Integrity risk-Reputation	Required by AAOIFI standards as a statement
	2. The amounts given to beneficiaries	Strategic risk-Business portfolio	
	3. The social purposes for which the funds were given	Integrity risk-Reputation	
	4. The policy of the bank in providing such loans	Financial risk-Credit	
	5. The policy of dealing with insolvent beneficiaries	Financial risk-Credit	

Table 16: Expected disclosures (adapted to risk disclosure categories) (continued)

Area	Items to be disclosed	Risk disclosure category	
Charitable and social activities	1. The nature of charitable and social activities financed	Integrity risk-Reputation	Required by AAOIFI as part of *Zakat* statement
	2. The amount spent in these activities	Strategic risk-Business portfolio	
	3. The sources of funds used to finance these activities	Financial risk- Liquidity	
Employees	1. The policy on wages and other remuneration	Operations risk-Efficiency and performance	
	2. The policy on education and training of employees	Operations risk-Health and safety	
	3. The policy of equal opportunities	Empowerment risk-performance incentives	
	4. The policy on the working environment	Strategic risk-Planning	
Late repayments and insolvent clients	1. The policy in dealing with insolvent clients	Integrity risk-Reputation	Required by AAOIFI only for *Murabahah* financing, and not other modes of finance
	2. The amount charged as late penalty, if any	Strategic risk-Business portfolio	
	3. The *Shari'ah* Board's opinion regarding the permissibility of imposing additional charges (such as late penalties)	Strategic risk-Regulatory	
Environment	1. The amount and nature of any donation or activities undertaken to protect the environment	Operations risk-Environmental	
	2. The projects financed by the bank that may lead to harming the environment	Integrity risk-Illegal act	
Other aspects of community involvement	1. The bank's role in economic development	Integrity risk-Reputation	
	2. The bank's role in addressing social problems	Strategic risk-Business portfolio	

archive search that reveals articles up to the past 10 years with a maximum of up to 200 hits, although pull-outs were not included in this electronic newspaper archive. The search was ongoing and from February 2006 back to 1998 uses the date search which revealed all daily news articles. On the other hand, www.thestar.com.my only provides free archives for the past 365 days. Only topics related to the organisations studied and risk were taken for the study.

The researcher does not deny that there may have been some articles that could have been overlooked throughout this web search. However, to reduce this possibility, the web searches have been made at various time points during the research and the information have been accumulated over the years. In considering the decision rule for risk disclosure, each article found on the case organisations associated with disclosing risks constitute one information communication. The risk information must be expressly stated in order for the article to be counted as reporting risk. The dates of the documents, the topics discussed and the web addresses of the information were noted. Some document dates were not available therefore, the dates when these information was found was noted. A sample of the list of media communication is shown in Chapters 4 and 5. Again, for this study, the researcher has analysed the media disclosures to study what are the risks categories (ICAEW 1998) that have been reported and then grouped them together, as in the study on the Annual Financial Statements.

Due to the subjectivity of considering risk disclosure, Linsley and Shrives (2006, p. 402) developed the decision rules to be taken when considering risk disclosure in their study. Linsley and Shrives's (2006) decision rules as per Table 17 were adapted by the researcher for use in this study as in Table 18. This adaptation has left out certain decision rules used by Linsley and Shrives (2006) due to the fact that the case organisations do not have specific rules and regulations on risk reporting and thus this study does not scrutinise the way in which the risk reporting is made, i.e. whether a risk or uncertainty is 'good', 'bad' or 'neutral', whether the risks are monetary or non-monetary, or whether the reporting is of past, present, future or non-time specific. Therefore, this study only counts the basic risk disclosure of the case organisation according to the risk categories by ICAEW 1998 as per Table 6.

Table 17: Decision rules for risk disclosures

Source: Linsley and Shrives (2006, p. 402).

1. To identify risk disclosures a broad definition of risk is to be adopted as explained below.
2. Sentences are to be coded as risk disclosures if the reader is informed of any opportunity or prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted upon the company or may impact upon the company in the future or of the management of any such opportunity, prospect, hazard, harm, threat or exposure.
3. The risk definition just stated shall be interpreted such that 'good' and 'bad' 'risks' and 'uncertainties' will be deemed to be contained within the definition.
4. Although the definition of risk is broad, disclosures must be specifically stated; they cannot be implied.
5. The risk disclosures shall be classified according to a predefined grid, columnised and by reference to the risk disclosure categories (ICAEW 1998).
6. Sentences of general accounting policy concerning financial risk management shall be classified as 'M1' –'non-monetary/neutral/non-time specific statements of risk management policy – financial risk'.
7. Monetary risk disclosures are those risk disclosures that either disclose directly the financial impact of a risk or disclose sufficient information to enable the reader to calculate the financial impact of a risk.
8. If a sentence has more than one possible classification, the information will be classified into the category that is most emphasised within the sentence.
9. Tables (quantitative and qualitative) that provide risk information should be interpreted as one line equals one sentence and classified accordingly.
10. Any disclosure that is repeated shall be recorded as a risk disclosure sentence each time it is discussed.
11. If a disclosure is too vague in its reference to risk, than it shall not be recorded as a risk disclosure.

Table 18: Decision rules for risk disclosures – adapted from Linsley and Shrives (2006, p. 402)

1. To identify risk disclosures a broad definition of risk is to be adopted as explained below.
2. Web articles are to be coded as risk disclosures if the reader is informed of any opportunity or prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted upon the organisation or may impact upon the organisation in the future or of the management of any such opportunity, prospect, hazard, harm, threat or exposure.
3. Although the definition of risk is broad, disclosures must be specifically stated; they cannot be implied.
4. If a web article has more than one possible classification, the information will be classified into the category that is most emphasised within the article.
5. Any disclosure that is repeated shall be recorded as a risk disclosure article each time it is discussed.
6. If a disclosure is too vague in its reference to risk, than it shall not be recorded as a risk disclosure.

Summary

This chapter discussed the research philosophy and the method for data analysis. The chapter started with a diagram showing the approaches followed during the research. The section on research philosophy was divided into four main sections, the research ontology, the research epistemology, the research methodology and the research methods. The subsection on issues on the research methods and limitations of the research gave reasons why the data collected may not have been the ideal. Nevertheless, the methods represented what was available and accessible to the researcher as a member of the general public during the data collection period. The section on the method of data analysis explained how each research area, i.e. risk perception, risk reporting and the social arena was analysed to answer the research questions (see Table 19). It emphasized analysis of the risk categories, i.e. where risks were reported and the frequency of reporting. The following chapter is one of three chapters on the empirical findings. The first two will discuss findings within the case organisations and the third will discuss findings outwith the case organisations.

Table 19: Research questions and the method of analysis used on answers

No.	Research question	Method of analysis
1	a. Which rationality do the organisations belong to as per their stated incorporation objectives?	a. Refer to Figure 3: The four rationalities and Table 3: The basic determinants of the four political cultures.
	b. What is/are the rationality/rationalities of the people within the organisations?	b. Similar to (a) above.
	c. Based on their risk rationalities how do they perceive risks?	c. Based on interviews and questionnaires, and Figure 3: The four rationalities.
2	a. What are the rules and regulations on the Annual Financial Statements of the organisations?	a. Research Treasury and Public Service Circulars, refer to Federal Constitution, relevant acts.
	b. Who imposed them?	b. Depends from where it originates, Treasury Circulars from Treasury, Public Service Circulars from the Public Service Department.
	c. Is there any specification on risk reporting in the rules and regulations?	c. Analyse the rules and regulations.
	d. Is there any disclosure by the organisations of voluntary compliance to any other reporting rules and regulations?	d. Analyse the narratives in the financial statements.
	e. What information is given in the regulated Annual Financial Statements?	e. Identify the statements prepared.
	f. Is there any risk reporting in the Annual Report and if there is, in which section is this done?	f. Analyse the Annual Report.
	g. What categories of risks have been disclosed?	g. Use ICAEW(1998) risk categories, Table 18 Decision rules for risk disclosures (adapted from Linsley & Shrives 2006, p. 402)

Table 19: Research questions and the method of analysis used on answers (continued)

3	a. What are the different policy systems that exist in the social arena of the case organisations and have an interest in the case organisations?	a. Identify based on research, documentation review.
	b. What are the roles of the different policy systems in the arena?	b. Internet search, interviews, documentation review.
	c. Why are the different policy systems interested in the case organisations?	c. Internet search, interviews, documentation review.
	d. What are the risk rationalities of the different policy systems?	d. Refer to Figure 3: The four rationalities and Table 3: The basic determinants of the four political cultures.
	e. How do they interact with each other and with the case organisations?	e. Internet search, interviews, observation.
	f. What degree of control does one policy system have over one another and on the case organisations?	f. Documentation review, internet search.
	g. What information do they expect from the case organisations?	g. Interviews, media reports.
	h. Which categories of risks have been reported?	h. ICAEW (1998) risk categories.
	i. According to the risk categories, how frequent have each been reported in the media during the years 1996 to 2007?	i. Quantitative count.
4	a. What are the reasons for the application of the economic-based regulatory mechanism?	a. Documentation review.
	b. What are the reporting requirements of the value-based organisation?	b. Documentation review.
	c. Are these reporting requirements satisfied by the economic-based regulatory mechanism?	c. Quantitative count of negative risk reporting in the media.

Introduction

This chapter forms the first of three chapters on the empirical findings. The first two will mainly discuss the findings within the case organisations, the Pilgrims Fund and the Armed Forces Fund including the organisational risk reporting according to regulatory requirements. The third will discuss the findings outwith the case organisations, i.e. the social arena of the study; including the different policy systems within the arena and their role in influencing each organisation's decision making. This chapter will begin with a general introduction to the statutory bodies, before concentrating on the Pilgrims Fund i.e. the establishment and objective, the regulatory framework, the comprehensive changes to reporting regulations, the authority, the responsibilities and the returns performance and recognition. This introduction to the statutory bodies is necessary to provide a basic background on the operations of the statutory bodies and the environment in which they operate. Following the introduction, in accordance with the first and second research objectives, this chapter will present the empirical findings in the Pilgrims Fund and the next chapter will present the empirical findings on the Armed Forces Fund. In each these two chapters, the findings include an introduction to the organisation including a discussion on the changes to the incorporating regulations impacting on values; and a discussion on governance, i.e. the background of, changes in the tenure and its (mis)management.

Statutory bodies

Establishment and objective

In Malaysia, the public sector consists of the ministries, departments and statutory bodies (Figure 5). Statutory bodies are organisations established through Acts passed in the Federal Parliament. Statutory bodies do not include local councils or any corporations established under the Malaysian Companies Act 1965.

They are formed mainly with the objective of ensuring the development of the nation is achieved at a satisfactory rate of growth. Statutory bodies are professionally managed and are free from government bureaucracy. As at the end of 2004, there are

101 statutory bodies with the purpose of carrying out diverse activities to enhance the nation's economic and social development.

At the same time, government companies are incorporated under the Malaysian Companies Act 1965, as part of the private sector to fulfil purposes that may not be achievable under the bureaucracy of the public sector. In the private sector, more controls are instituted such as the Minority Shareholders Watchdog Group (MSWG) and also the Malaysia Institute of Corporate Governance (MICG). The Minority Shareholders Watchdog Group is a company limited by guarantee formally established by the Chairman of the Securities Commission on 23 April 2001. It acts as a watchdog for corporate governance[13]. The founders are the Armed Forces Fund (AFF), the Employees Provident Fund (EPF), the National Capitalisation Limited (NCL), the Pilgrims Fund (PF) and the Social Security Organisation (SocSO). The Minority Shareholders Watchdog Group was later taken over by the Ministry of Finance on 1 March, 2005, under a programme to restructure its finances which saw the five founders relinquishing their interests in the company. The new Minority Shareholders Watchdog Group receives RM300 million funding from the Ministry's Capital Market Development Fund, which has a 20.04% controlling interest in the Bursa Malaysia[14].

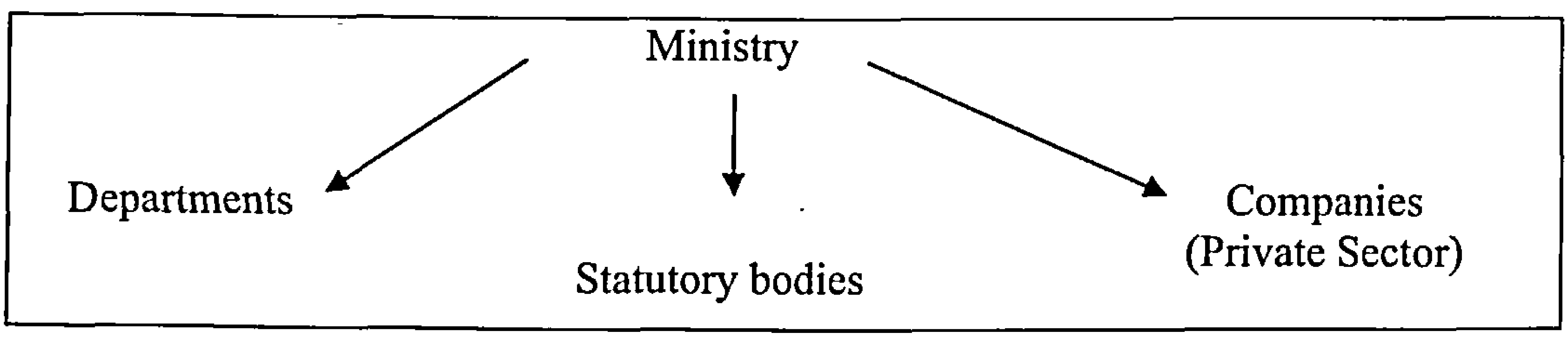


Figure 5: Subdivisions of a Ministry

[13]http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=0614&pub=utusan_express&sec=business&pg=bs_01.htm&arc=hive 15/12/2004
[14]http://www.utusan.com.my/utusan/archive.asp?y=2005&dt=0301&pub=utusan_malaysia&sec=ekonomi&pg=ek_04.htm&arc=hive 15/12/2004

Regulatory framework on statutory bodies

Figure 6 shows the main regulatory framework on statutory bodies in Malaysia.

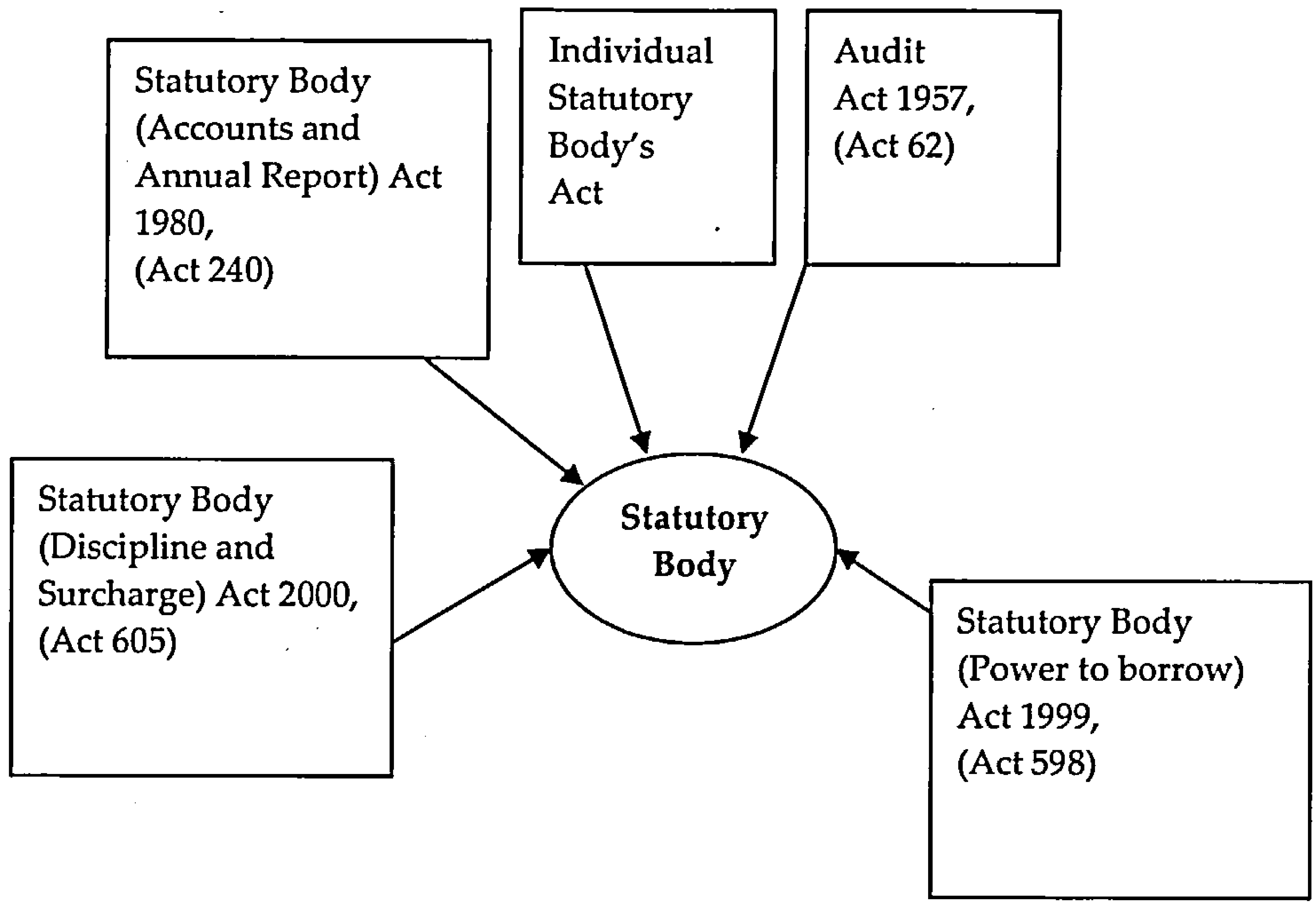


Figure 6: The regulatory framework on statutory bodies

These Acts are also supplemented by other Acts and Circulars shown in Table 20. In the table, the regulatory framework on statutory bodies were divided into three main sections, firstly regulations regarding accounts, Annual Reports and audits; secondly, regulations regarding board of directors and Chief Executive and lastly; general regulations on statutory bodies which incorporates regulations not covered in the first and second sections.

Comprehensive changes to reporting regulations

The highest level regulation for government accounting in Malaysia is stated in Part VII Financial Provisions of the Federal Constitution, in Articles 96 to 112. The Financial Provisions cover matters such as taxation, the Consolidated Funds, expenditures, the Annual Financial Statements, Supply Bills, the Contingencies Fund, the Auditor-General, the National Finance Council, Grants to States and borrowing.

Table 20: Additional regulations with implications on statutory bodies

Regulations regarding Accounts, Annual Report and Audit	
1	Treasury Circular No. 4/2007 Guidelines for the preparation and presentation of Annual Reports and Annual Financial Statements of federal statutory bodies (repeals Treasury Circular No. 15/1994).
2	Implementation of Malaysian Accounting Standards on all statutory bodies' Annual Financial Statements effective from the year 2000.
3	Ministry of Finance Instructions (7.7.1997). Internal Audit Report.
4	Treasury Circular Letter No. 2/1996. Guidelines on establishing Financial Management and Accounts Committee in Ministries/Departments and statutory bodies.
5	Public Administration Development Circular. No. 1/1996, Implementation of Standardised Accounting for Government Agencies (SAGA) in Federal statutory bodies.
6	General Circular Letter No. 1/1995. Preparation of Brief Report on Financial Position and Annual Performance of statutory bodies.
7	Treasury Circular No. 15/1994 Guidelines for the preparation and presentation of Statutory Bodies Annual Report and Financial Statement. (This Circular is replaced by the Treasury Circular No. 4/2007, Guidelines for the preparation and presentation of Annual Report and financial statements of Federal statutory bodies, effective the 2007 financial year).
8	Treasury Circular 9/1993. Guidelines on establishing the Audit and Investigation Committee for Government Companies.
9	Public Service Administration and Development Circular 8/1991. Guidelines on Works Procedures Manual and Desk File.
10	Treasury Circular No. 2/1979. Audit Implementation in Federal Government Agencies.
11	Section 15A of the Financial Procedure Act 1957 (Act 61).
12	Treasury Instructions (where applicable).
13	Part VII Financial Provisions of the Federal Constitution Articles 96-112.

In terms of accounting, all statutory bodies must comply with the Statutory Bodies (Accounts and Annual Reports) Act 1980, otherwise known as Act 240, which governs the preparation of accounts and Annual Reports of all statutory bodies. Act 240 ranks as equal to the incorporating Act of the statutory bodies. The latest Treasury Circular for the case study organisations currently enforced is the Treasury Circular Number 4 of 2007, Guidelines for the preparation and presentation of Annual Report and financial statements of Federal statutory bodies, replacing the earlier Treasury Circular Number 15 of 1994, Guidelines for the preparation and presentation of Statutory Bodies Annual Report and Financial Statement; effective from the 2007 financial year. This new guideline specifies the

Table 20: Additional regulations with implications on statutory bodies (continued)

Regulations regarding board of directors and Chief Executive	
1	Services Circular (1/2002). Appointment and termination of Chairman to the board and the Chief Executive Officer of statutory bodies.
2	Treasury Instruction (3.11.2000). Amendment to Instruction to Chairman/Chief Executive Officer/Director-General on position as member of the board.
3	Treasury Instruction (24.8.2000). Amendment to Instruction to Chairman/Chief Executive Officer/Director-General on position as member of the board.
4	Treasury Instruction (7.5.2000). Amendment to Instruction to Executive Chairman/Chief Executive/Director-General of statutory bodies.
5	General Circular Letter No. 3/1998. Guidelines on the Ministry's, board of directors', and Chief Executive's Role and Responsibility in the management of Federal statutory bodies.
6	Treasury Circular No. 7/1994. Regulation on the Allowances and Benefits for the Non-executive Chairman, Deputy Chairman and Members of the board in statutory bodies.
7	General Circular Letter No. 2/1993. Guidelines on Role and Responsibility of the Ministry, board of directors and the Chief Executive in the Management of Federal statutory bodies.
8	Services Circular No. 3/1985. Guidelines on the Appointment and Role of Government officers as the Chairman, Chief Executive and board Members of Public Bodies Government/Government Interest Companies.
General Regulations	
1	Services Circular No. 17/2000. Implementation of Statutory Bodies (Discipline and Surcharge) Act 2000 (Act 605).
2	Treasury Circular Letter No. 4/2002 Increase in cost limit and conditions governing direct purchase of services and supplies (amending Treasury Circular Letter No. 2/1999). Limit to the value of supplies; Power and Responsibility of the board and the Quotations Committee on supplies.
3	Treasury Circular Letter No. 12/1995. Involvement of Controlling Officer in Stores and Assets Management in Ministry/Departments and statutory bodies.
4	Treasury Circular No. 7/1990. EPF Contribution for Federal, State and Local Government Officers

minimum disclosure requirements in the Annual Reports and expressly requires adherence to the regulations of the Malaysian Accounting Standards Board in the preparation of the Annual Financial Statements. In previous years, this meant adherence to the Malaysian Accounting Standards. However, the Malaysian Accounting Standards was replaced by two new sets of accounting standards namely the Financial Reporting Standards and the Private Entity Reporting Standards. The Financial Reporting Standards are applicable to the statutory bodies and private

Table 21: The financial reporting standards

Source: http://www.masb.org.my/masbstd_aas01.htm

No	New name	Old name	Title
1	FRS 101_{2004}	MASB 1	Presentation of Financial Statements.
2	FRS 102_{2004}	MASB 2	Inventories.
3	FRS 104_{2004}	MASB 14	Depreciation Accounting.
4	FRS 107_{2004}	MASB 5	Cash Flow Statements.
5	FRS 108_{2004}	MASB 3	Net Profit or Loss for the period, Fundamental errors and Changes in Accounting Policies.
6	FRS 109_{2004}	MASB 4	Research and Development Costs.
7	FRS 110_{2004}	MASB 19	Events after the Balance Sheet Date.
8	FRS 111_{2004}	MASB 7	Construction Contracts.
9	FRS 112_{2004}	MASB 25	Income taxes.
10	FRS 114_{2004}	MASB 22	Segment Reporting.
11	FRS 116_{2004}	MASB 15	Property, Plant and Equipment.
12	FRS 117_{2004}	MASB 10	Leases.
13	FRS 118_{2004}	MASB 9	Revenue.
14	FRS 119_{2004}	MASB 29	Employee Benefits.
15	FRS 120_{2004}	MASB 31	Accounting for Government Grants and Disclosure of Government Assistance.
16	FRS 121_{2004}	MASB 6	The Effect of Changes in Foreign Exchange Rates.
17	FRS 122_{2004}	MASB 21	Business Combinations.
18	FRS 123_{2004}	MASB 27	Borrowing Costs.
19	FRS 124_{2004}	MASB 8	Related Party Disclosures.
20	FRS 126_{2004}	MASB 30	Accounting and Reporting by Retirement Benefit Plans.
21	FRS 127_{2004}	MASB 11	Consolidated Financial Statements and Investments in Subsidiaries.
22	FRS 128_{2004}	MASB 12	Investment in Associates.
23	FRS 131_{2004}	MASB 16	Financial Reporting of Interests in Joint Venture.
24	FRS 132_{2004}	MASB 24	Financial Instruments Disclosure and Presentation.
25	FRS 133_{2004}	MASB 13	Earnings Per Share.
26	FRS 134_{2004}	MASB 26	Interim Financial Reporting.
27	FRS 135_{2004}	MASB 28	Discontinuing Operations.
28	FRS 136_{2004}	MASB 23	Impairment of Assets.
29	FRS 137_{2004}	MASB 20	Provisions, Contingent Liabilities and Contingent Assets.
30	FRS 201_{2004}	MASB 32	Property Development Activities.
31	FRS 202_{2004}	MASB 17	General Insurance Business.
32	FRS 203_{2004}	MASB 18	Life Insurance Business.
33	FRS i-1	MASB i-1	Presentation of Financial Statements for Islamic Financial Institutions.

companies whilst the Private Entity Reporting Standards are only applicable to private companies registered under the Malaysian Companies Act 1965 (see Table 21 for a list of the Financial Reporting Standards). It is noted that none of the financial reporting standards referred to risk reporting either generally or specifically.

From the financial management aspect, statutory bodies are not subject to Treasury Instructions and other government circulars except those specifically concerning them. Statutory bodies are allowed to prepare their own accounting policies as long as they do not contradict the approved accounting standards, which since 1999, are monitored by the Malaysian Accounting Standards Board (MASB). The keeping of records is the major responsibility of the accountant but the board of directors and the Chief Executive Officer are responsible to ensure that proper records are kept and maintained. Financial statements are prepared on an accruals basis every year to 31 December.

The National Audit Department envisages to complete auditing and to return the certified financial statements to the statutory bodies within four months of receipt. The Act 240 also specifies that statutory bodies should submit the audited financial statements and a statement of activities to the Minister-in-charge within a month after receiving the Auditor-General's report. The Minister should then table the same in Parliament as soon as possible[15]. Figure 7 shows the schedule for submitting financial statements of statutory bodies and the statement of activities after the financial year end.

A significant point is the adherence to the deadlines has always been an issue in the Malaysian public sector up to the later half of the 1990s when gradually the government have imposed stricter rules to enforce compliance and more accountability of the Ministers to answer for the delays in submitting the financial statements of their statutory organisations in Parliament. These strict rules culminated in the imposition of the professional accounting standards on the statutory bodies beginning the year 2000.

---

[15] Section 7, Statutory Bodies (Accounts and Annual Report) Act 1980.

+------------------------------+-----------------------+---------------------+--------------+

31/12 30/04 30/06 31/10 30/11

←Submit financial statements→
- Treasury Circular 15/1994
←Submit Annual Reports to Auditor-General – Act 240 →
← Auditor-General to audit accounts - Act 240 →
← Submit Audited Financial Statements and Activity Report to Minister - Act 240→

Figure 7: Schedule of latest dates for statutory bodies' financial statement returns

Authority

Every statutory body has autonomous authority, financially and otherwise, and has the power to borrow, to give loans, to invest, to establish subsidiary companies, to establish fund or trust accounts and to carry out programmes and activities. Some statutory bodies are dependant on government grants, equities, loans and guarantees to finance their operations whilst others have internally generated funds.

The board of directors is formed to implement the function, management and administration of each statutory body and is its highest authority for decision making, although some decisions involving substantial amounts of the organisational resources will be subject to the Minister-in-charge's approval. The appointment and termination of the board of directors are the jurisdiction of the Minister. The members of the board consist of representatives from the Treasury, the Ministry, government servants and members knowledgeable on the act of the statutory bodies. Members are recruited from both the public and private sectors. The Chief Executive Officer of the statutory body may be employed on loan from another public agency (Services Circular Number 13 of 2000), or by temporary transfer from the same statutory body (Services Circular Number 13 of 2000) or by contract, if the chosen candidate is not presently a public servant.

Responsibilities

From the overall management aspect, every statutory body should maintain an organisation chart depicting organisational function, activity and hierarchy; selection of competent personnel based on individual qualification, proficiency and experiences; succession plan to ensure management continuity; concise definition of segregation of duties to establish effective control system; naming of personnel involved in any delegation of powers; completely defined listing of all duties and provision of training to enhance personnel skills.

From the committees/units formed aspect, statutory bodies are required to establish three main committees in accordance to the law. The first is the Internal Audit Unit in accordance to Treasury Circular Number 2 of 1979. The function of this committee is to assess the management and internal controls of statutory bodies to effect rectification and improvement. Treasury Circular Number 9 of 1993 requires statutory bodies to set up a second committee, the Audit Committee, which should meet at least quarterly. Treasury Circular Number 2 of 1996 necessitates the setting up of a third committee, the Accounts and Financial Management Committee to supervise and monitor the finance operations so that they comply with rules and regulations.

From the systems and procedures aspect, the Public Service Development Administration Circular Number 8 of 1991 states that all government agencies must have a complete and updated Works Procedures Manual, depicting the departmental functions, procedures and work flows, naming the officers responsible in each department; and a Desk File, which should be prepared in full detail as their reference and guidance. In addition, there should be comprehensive financial and accounting procedures.

From the financial management aspect, Section 15(A) of Financial Procedure Act 1957 (Act 61) and the Treasury Instructions have determined the role and responsibilities of the Controlling Officer to ensure accountability in the Government's financial management. Internal control are to be assessed based on budgetary control, revenue and receivables control, cost control, asset management and management of trust accounts, deposits, loans and investments.

In terms of risk reporting, compliance with the above responsibility regulations could ensure reporting of the empowerment risk category as per ICAEW (1998).

Returns performance and recognition

Media-wise, some statutory bodies remain the subject of much public scrutiny when their returns vary drastically for the worse throughout the years, whereas some others seem to have performed well during the same period, despite being in the same economy; whilst managing constant high returns. According to the attribution theory (Heider 1958; Kelley 1967; Jones, Worchel, Ooethals & Grumet 1971; Jones & Wortman 1973; Ross 1977 and Ross & Fletcher, 1985) several factors were attributed by those not performing as well as they should.

Firstly, this includes fraud (for example, the Pilgrims Fund attributed its fraud losses to the failure of the National Registration Department to curb falsification of identity cards, permitting impersonation of the real depositor using falsified identity documents to withdraw RM 1.24 million from the Pilgrims Fund[16]).

Secondly, this includes misinformation by management (for example, when the ex-Minister-in-charge of the Pilgrims Fund approved investments which later proved to be overstated he attributed the loss to two Senior General Managers of Finance and Investment respectively whom he said misinformed him on the details of the RM 200 million investment[17] in an unlicensed company, Metrowangsa Asset Management Sdn Bhd). The ex-Minister-in-charge claimed that he should not be blamed for the investments he approved since he had neither the knowledge of the companies in which the Pilgrims Fund invested nor the investment expertise[18]. The senior managers were found guilty and sentenced to prison.

---

[16] http://www.google.com.my/search?hl=en&q=tabung+haji+penipuan+kad&meta= 04/10/2007
[17] http://nogold.com/forum/fxmisc/18179-2-datuk-dipenjara-pecah-amanah-pelaburan-dana-rm200-juta-milik-tabung-haji.html 04/10/2007
[18]http://www.utusan.com.my/utusan/content.asp?y=2002&dt=0401&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_04.htm 15/12/2005

Thirdly, this includes incorrect decisions and investments that were not transparent (for example the ex-Chairman of the Pilgrims Fund, Hanafiah Ahmad, attributed the financial crisis in the Pilgrims Fund to incorrect decisions and investments that were not transparent[19]).

For all statutory bodies, recognition of quality in management system and documentation (measured through orderly, detailed, well defined and systematic documentation of all procedures and work instructions) is acknowledged by the award of International Standardization of Organisation 9000 (MS ISO 9000). Although application for certification is voluntary, the organisations must apply in order to get the award.

The above section gave a general introduction into statutory bodies. The following section will introduce the case organisations generally. The introduction to both case organisations is necessary because it forms a background to a better understanding of the individual circumstances of the cases.

General information regarding the case organisations

Table 22 shows the descriptive statistics for the Pilgrims Fund and the Armed Forces Fund for the year 2003. It should be noted that the Pilgrims Fund was established in 1963 with contributors depositing voluntary amounts whilst the Armed Forces Fund was established in 1973 with most contributors and the Ministry of Defence as their employer depositing mandatory percentages of each contributor's salary.

Table 22: Descriptive statistics measuring company size in 2003 (to the nearest RM'000)

Descriptive statistics	Pilgrims Fund	Armed Forces Fund
Total assets employed	11,635,516	4,558,480
Revenue	668,616	475,835
Members' contribution account	11,286,641	3,347,502

In the Pilgrims Fund, the members' contribution account formed a major section of the total assets employed but in the Armed Forces Fund, the ratio of members' contribution to the total assets employed was not as high. This was due to a larger

[19] http://www.mail-archive.com/hizb@hizbi.net/msg29103.html 04/10/2007

proportion of income generated by the Armed Forces Fund, compared to the proportion of income generated by the Pilgrims Fund. The higher proportion of income was derived for example, from more profitable investments, which were later used to purchase properties and invest in profitable ventures by subsidiary companies. It seems that the investments made by the Pilgrims Fund were producing lesser returns. At the same time, there was a significant difference in the ratio of revenue to the total assets employed within the two institutions. This could be attributed to the individual organisational strategies, i.e. their choice of investment portfolio.

The next section will give a more comprehensive discussion on the Pilgrims Fund.

The Pilgrims Fund

Introduction

The Pilgrims Fund is a religious organisation set deep in Islamic values. The initial purpose of establishment was to send Muslims to perform pilgrimage whilst securing their economic background. Contributors to the Fund envisage the act of contributing money for the religious journey a deed in itself and mostly are religious-conscious, i.e. conserving the 'purity' of the pilgrimage monies should be an end itself. There were many difficulties faced by the founding father, the Royal Professor Ungku Abdul Aziz in setting up the Fund[20], including convincing the people that the savings scheme will not be 'just another usury-practising bank'. Each year in the Notes to the Financial Statements, the Pilgrims Fund professes adherence to Islamic *'Shari'ah'* law. Over the years, the amount of funds accumulated in Pilgrims Fund has grown and has particularly assisted the economy in times of crises. Some quarters were not very keen on using the fund for economic matters and made their voices heard.

However, the application of Islamic *'Shari'ah'* law in the Pilgrims Fund's Annual Financial Statements is currently at a minimum due to lack in progress of the Islamic

[20] More information in the next section.

Accounting Standards[21]. Ever since its establishment, the Pilgrims Fund has adhered to government accounting which is more economic-based than value-based. The recent imposition of professional accounting standards duplicated from the private sector on government institutions, including the Pilgrims Fund saw the Pilgrims Fund following accounting standards which were originally designed to be used as performance measures on profit-oriented companies in the private sector so that investors could compare between individual companies on the stock exchange to arrive at a decision as to which companies they should invest in despite the knowledge that not all government institutions are profit-oriented. The professional accounting standards are economic-based, i.e. putting more emphasis on profitability and performance. This is against the Pilgrims Fund contributors' value-based reporting requirement. The contributors prioritise religious values. Economic-based values are not as important although they may see it as an added bonus.

Therefore, in accordance to legal requirements, the Pilgrims Fund has to comply with the reporting standards which are economic-based although it annually professed its usage of *'Syariah'* law in the Annual Report and needs to justify its value-base due to its customers' requirements.

The contradicting contributors' and legal requirements left a risk reporting information gap, i.e. trying to satisfy the needs of the value-based users of the risk reports against complying with the economic-based reporting requirements. The needs of the value-based users are specified by Maali, Casson and Napier (2006) which specified thirty expected disclosures in Islamic reporting. These expected disclosures are significantly different from the legal requirements specified in the Financial Reporting Standards of the Malaysian Accounting Standards Boards. This gap needs to be filled by other reporting channels and the most accessible and prominent candidate seems to be the media, i.e. the newspapers and the internet. A more comprehensive introduction to the Pilgrims Fund follows.

[21] To date, there is only one Islamic Financial Reporting Standard produced by the Malaysian Accounting Standards Board.

The organisation

The roots for establishing the Pilgrims Fund was originated by the Royal Professor Ungku Abdul Aziz, one of the first Muslim intellectuals, a royal descendant, who recognised the necessity to facilitate economically the pilgrimage needs of ordinary Muslims. This eminent economist saw many Muslims suffer for many years to save money for their pilgrimage, despite the fact that pilgrimage is not compulsory if one does not have the resources. Through his paper submitted to the government in 1959, entitled "A Plan to Improve the Economic Position of Future Pilgrims", he master minded the formation of the Pilgrims Board. He stated that future pilgrims should invest in a bank or financial institution which is untainted by interest but yields profits. This led to the formation of the Malayan Muslims Pilgrims Savings Corporation under Act Number 34 in November 1962[22] after the concept paper on the organisation and activities of the Corporation has been approved as not being contrary to Islamic laws by Sheikh Mahmoud Al-Shahltut, the Rector of Al-Azhar University in Cairo, on his visit to Malaysia in 1962. The Malayan Muslims Pilgrims Savings Corporation had its first meeting on 21 March 1963 and was officially launched on 30 September 1963. Money for the fund was collected through a Post Office savings scheme.

In 1969, the Corporation merged with the Penang Pilgrims Affairs Office which has been in operation since 1951 to form the Pilgrims Management and Fund Board through the Pilgrims Management and Fund Board Act 1969, which was also known as Act 8. This organisation was a unique organisation since it is "the only one of its kind in the world"[23].

This incorporating Act was later repealed for the purpose of enhancing the role of the board in Islamic economics and replaced by the Pilgrims Fund Act 1995, otherwise known as Act 535, effective 1 June 1995. Through this the Pilgrims Fund Board (Pilgrims Fund) was established to replace the earlier Pilgrims Management and Fund Board.

---

[22] http://www.tabunghaji.gov.my/th/bm/latarbelakang_th.asp?lthmenu=0 15/05/2007
[23] Islamic Research and Training Institute (1995:11)

Changes to regulations impacting on values

There are two main changes to regulations which have impacted on values in the Pilgrims Fund. The first involves the introduction of the new Pilgrims Fund Act 1995 (Act 535) and the second involves the introduction of three main changes to the reporting regulations, i.e. the requirement that the statutory bodies comply with the Treasury Circular Number 15 of 1994, Guidelines for the preparation and presentation of Statutory Bodies Annual Report and Financial Statement; the requirement that the statutory bodies comply with the professional accounting standards as set up by the Malaysian Accounting Standards Board effective from the year 2000 and the requirement to comply with the Treasury Circular Number 4 of 2007, Guidelines for the preparation and presentation of Annual Reports and Annual Financial Statements of statutory bodies, repealing the Treasury Circular Number 15 of 1994.

The original objectives of the Pilgrims Management and Fund Board[24] were to provide savings services that are untainted by interest and its main strategy was to exploit the financial resources of the Muslims in such a way as to avoid the fragmentation of wealth which is detrimental to the rural economy[25]. The former Chairman and Director-General of the Pilgrims Management and Fund Board, Hanafiah Ahmad stressed the importance of values upheld by the organisation in his paper in 1987[26]. The savings that are free from interest help Muslims perform their Pilgrimage duty without encountering impoverishing hardships after their pilgrimage and are compliant with *Shari'ah* laws.

With the change in the Act, the main objective of Pilgrims Fund is to enable Muslims to save for the purpose of performing pilgrimage and to participate actively in the nation's economic activities, including capital investment in the plantation and agricultural sectors according to Islamic tenets.

---

[24] The Pilgrims Management and Fund Board Act, 1969, Section 4.
[25] Islamic Research and Training Institute (1995:9).
[26] Hanafiah Ahmad, "Turning a government agency into a people's organisation and a tool for development: the Pilgrims Fund experience". A paper presented to group discussion, Ramon Magsaysay Award Foundation, Manila, September 2, 1987.

Strategies utilised in ensuring competitive returns for depositors[27] include identifying equity investment, money market, corporate notes, and commercial papers with the potential of giving good returns after all calculated risks; and seeking opportunities in initial public offer share activities of new shares with high potential.

A significant point to note is that the changes incorporated in the Pilgrims Fund Act 1995, see a transfer of powers, including the power to appoint the Chairman and his Deputy[28], and the power to appoint the Chief Executive Officer[29]; from the Monarch who is the Head of Islamic religion for the nation, to the Minister-in-charge of Religious Affairs, in the ruling government. This led to heated discussions on the ability of the Minister-in-charge to be responsible in maintaining the religious values of the organisation previously upheld by the Monarch. This is because when the Monarch made any decisions pertaining to the Pilgrims Fund, it was almost always made after consultation with a team of religious experts on the matter and thus clarifying any doubts of the interested parties as to the religious values of the decisions made. In contrast, the shift of power to the Minister-in-charge, grants him the veto power to overrule any suggestions thus creating discontent amongst a majority of the contributors as well some members of the general public. The gravity of the situation was made apparent when the Pilgrims Fund proposed listing one of its best performing subsidiaries, arousing risk debates on the purity of the investment amplified by the press (see findings on risk reporting by the media) which was only settled when the Prime Minister suggested the Pilgrims Fund proceed with the listing.

In terms of the reporting requirements, due to ambiguity in the changes, this research found some differences in the terms used by the statutory bodies to represent the same items in the financial statements. The failure of the changes made in 2000 to promote uniformity in the financial statements led to another more comprehensive regulation, i.e. the Treasury Circular Number 4 of 2007, Guidelines on the

---

[27]http://66.249.93.104/search?q=cache:Y7WIT5G9xJwJ:www.tabunghaji.gov.my/th/berita/feb2005.pdf+risiko+tabung+haji&hl=en&gl=uk&ct=clnk&cd=1&client=firefox-a 2/10/06.

[28] Comparing Section 6(1)(a) of the Pilgrims Fund Act, 1995 with Section 3(5) of the Pilgrims Management and Fund Board Act, 1969.

[29] Comparing Section 12(1) of the Pilgrims Fund Act, 1995 with Section 13(1) of the Pilgrims Management and Fund Board Act, 1969.

preparation and presentation of Annual Reports and financial statements of the statutory bodies, which will be effective on the 2007 financial statements. Although the regulations on reporting requirements have improved in specificity over the years, it is apparent that there was an 'accountingisation' of the value-based Pilgrims Fund, demonstrated by the emphasis on compliance to accounting regulations which has been similarly applied to profit-oriented companies in Malaysia in 1998. It seems that although the Pilgrims Fund has complied with these reporting regulations in its Annual Financial Statements, there are further requirements on value-based reporting shown through web sites[30] and especially when more coverage regarding the matter is made in the media (see risk reporting findings later in this chapter).

The above section discussed the changes to the regulations impacting on values. The next section will discuss on the governance, specifically considering the background of and changes in the tenure and its management.

Governance: The background of, changes in the tenure and its (mis)management

This section will firstly discuss on the background of the governance in the Pilgrims Fund and secondly consider the tenure of governance. Before the Pilgrims Fund Act 1995 came into effect the Pilgrims Fund was only governed by a Chairman and his Deputy. The Chairman was also the Director-General appointed by the ruler, who was also the Head of Religion of the Federal Government. The Pilgrims Fund Act 1995 saw the transfer of power from the ruler, to the Minister-in-charge of Religious Affairs, a position normally taken by a minister without portfolio in the Prime Minister's Department. From 1995 to 2007, the Pilgrims Fund has seen changes in the Minister-in-charge as per Table 23:

Table 23: Ministers-in-charge of the Pilgrims Fund 1995-2007

Year	Minister
May 1995- January 2001[31]	Abdul Hamid Othman
2001-04	Abdul Hamid Zainal Abidin
2004-07	Abdullah Md Zin

[30]For instance http://bumiputera.blogspot.com/2006/11/umno-u-must-not-object.html, 04/10/2007
[31]http://www.utusan.com.my/utusan/archive.asp?y=2002&dt=0401&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_04.htm

May 1995 marked the beginning of religious teachers being successively appointed to the cabinet as ministers without portfolio in the Prime Minister's Department. This started with Abdul Hamid Othman who was given the responsibility to be in charge of Religious Affairs giving him penultimate control over the Pilgrims Fund, second only to the Prime Minister.

However, during a cabinet reshuffle early in 2001, Abdul Hamid Othman was not reappointed as a minister, and his post was given to the ex-army Brigadier General Abdul Hamid Zainal Abidin. Even though they have been in the same profession, a pro-opposition Malay language newspaper article[32] exposed that there was tension between Abdul Hamid Othman and his successor, Abdul Hamid Zainal Abidin, who revealed misappropriations of the Pilgrims Fund's funds during the former's tenure.

The former later became religious advisor to the Prime Minister on religious matters. From the newspaper report it seems that the removal of Abdul Hamid Zainal Abidin from his position in the 2004 cabinet reshuffle under the new Prime Minister was not due to the purported comments he made on a religious proposal by the Prime Minister but instead attributable to the tensions between him and Abdul Hamid Othman and the availability of a replacement when another person, Abdullah Md Zin was appointed to the cabinet to be in charge of Religious Affairs.

In terms of the Chairman and the Chief Executive Officer, the Pilgrims Fund has witnessed a number of changes during the years 1996 to 2007 as shown in Table 24.

The following paragraphs will give a detailed account of the people involved in the top management of the Pilgrims Fund and some issues during their tenure.

[32] http://malaysia-today.net/columns/sayuti/2005/03/menanti-rombakan-kabinet.htm 15/09/07

Table 24: Chairman and Chief Executive Officer for the Pilgrims Fund for the period 1996 to 2003

Year	Chairman	Chief Executive Officer
1996	Ahmad Razali Mohd Ali	Abdul Latif Mohd Hassan
1997	Ahmad Razali Mohd Ali	Harun Baba
1998-2000	Ahmad Razali Mohd Ali (passed away)	Harun Baba (to 5 October 1998) Badroddin Kassim (from 6 October 1998)
2001	Abdul Hamid Othman (stepped down as minister in January 2001 to 8 August 2001) Zainol Mahmood (from 9 August 2001)	Badroddin Kassim (to 6 October 2001) Mohd Bakke Salleh (from 15 October 2001)
2002-07	Zainol Mahmood	Mohd Bakke Salleh (to 31 December 2005) Ismee Ismail (from 1 January 2006)

Ahmad Razali Mohd Ali had a political career. He was the ex-Minister for the State of Selangor, one of the fourteen states within Malaysia. He was the brother-in-law to the Prime Minister at that time, Tun Dr Mahathir Mohamad. A report in a pro-opposition newspaper in 2004 stated that in 1996 the then Minister-in-charge, Abdul Hamid Othman, directed the late Ahmad Razali to make a RM67 million investment in Maju Holdings in October 1996, the start of a series of investments in the same group of companies which would bring losses to the Pilgrims Fund. On another occasion in January 1998, the same Minister-in-charge wrote to the then Chief Executive Officer, Harun Baba approving another investment in Maju Holdings, known as Maju Junction, to which the board agreed in its meeting in January 1998.

The Minister-in-charge then wrote to the Prime Minister, Tun Mahathir Mohamad, to seek his approval on the investment, which saw the approval of an additional RM270 million investment. These series of investments would later seriously affect the performance of the Pilgrims Fund. The same newspaper quoted a Pilgrims Funds executive who spoke under the condition of anonymity saying "there are problems, but new measures are in place to make sure these problems don't recur[33]".

When Ahmad Razali passed away, the post of Chairman was temporarily handed to Abdul Hamid Othman who was the former Minister-in-charge before the appointment of Zainol Mahmood, the business-minded ex-Executive Chairman of Pos Malaysia, the privatised national postal service. The appointment of Zainol Mahmood and his subsequent profit-oriented investment panel a month later[34] with most members being professional accountants and having a previous business background was apparently made to help turnaround the losses made by the Pilgrims Fund during Abdul Hamid Othman's era as Minister-in-charge. It was reported that several senior officers agree the 2001 management overhaul helped turn around the fund[35], producing a profit of RM414 million ($108.9 million) in 2003, up from RM368 million in the previous year. In his statement in January 2001, the then Minister-in-charge, Abdul Hamid Zainal Abidin urged contributors to "give full confidence on the new management[36]".

However, the Auditor-General criticised the Pilgrims Fund firstly for not heeding the advice given by the property valuation unit of the Ministry of Finance who stated that the RM270 million[37] investment in 1998 was 77% higher than the assessment conducted by the property valuation unit and secondly that a new assessment on the property when the building was handed over to the Pilgrims Fund in September 2001 revealed that the floor space of the building was actually 30% less than the total specified when the Pilgrims Fund agreed to buy it. The Auditor-General stated in his report that it will take the Pilgrims Fund 21 years to recoup its investment in Maju Junction[38].

---

[33] http://www.malaysia-today.net/Blog-e/2004_12_03_MT_BI_archive.htm 16/09/07
[34] according to the Pilgrims Fund special pull-out magazine, 5 January 2003, page 22.
[35] Including the Corporate Communications General Manager, Shaharuddin Abu Bakar, Pilgrims Fund special pull-out magazine, 5 January 2003, p 22.
[36] Pilgrims Fund special edition pull-out magazine 5/1/2003
[37] http://www.malaysia-today.net/blog/2004/12/tabung-haji-malaysia-disiasat.htm 04/10/2007
[38] http://www.malaysia-today.net/Blog-e/2004_12_03_MT_BI_archive.htm 16/09/07

Growth and development

Towards improving savings services, in 1989 the Pilgrims Fund, with the cooperation of employers in both the government and private sector, started the online credit through salary deduction scheme. By 31 December 1996, the collection totalled RM340 million. Savings could also be made through the Post Office where collections totalled to RM48.4 million.

Pilgrims Fund received the Islamic Development Bank Award for its Islamic Banking System in 1990, the Prime Minister's (Public Sector) Quality Award in 1995, the Efficient Service Award in 1999, and the Asia-Pacific International Quality Award in 2000. It has gradually diversified, with investments in Islamic banks, technology companies and plantations. However, the Corporate Corporations Manager (personal communication) stated that the Pilgrims Fund was adversely affected by the financial crises since approximately 50% of its income was derived from equity investments, especially in the year 2000 when the Pilgrims Fund suffered massive losses due to diminution in values of its equity investments and investments in real property.

As at the end of 2003, the total assets stood at RM11.6 billion, whilst net profit was RM413.50 million[39]. Bonuses amounted to RM412 million. It launched its internet banking service in September 2003, which attracted around RM80 million in online deposits within its first two weeks of operations. The internet banking service is seen as a highly successful savings mobilization model[40]. As at 20 October 2003, there were 4.6 million depositors[41].

Of the RM500 million profits after *Zakat* for the year ended 31 December 2004, the Pilgrims Fund credited a RM485 million bonus at 4.3% to 4.9 million depositors on

[39]http://66.249.93.104/search?q=cache:Y7WIT5G9xJwJ:www.tabunghaji.gov.my/th/berita/feb2005.pdf+risiko+tabung+haji&hl=en&gl=uk&ct=clnk&cd=1&client=firefox-a 2/10/06
[40]http://www.utusan.com.my/utusan/archive.asp?y=1999&dt=0215&pub=utusan_malaysia&sec=rencana&pg=ot_03.htm&arc=hive 23/9/06
[41] Statement by the Chairman in http://www.utusan.com.my/utusan/archive.asp?y=2003&dt=1021&pub=utusan_malaysia&sec=dalam%5Fnegeri&pg=dn_04.htm&arc=hive 20/10/03

14 February 2005[42]. When the normal average returns for fixed deposits in commercial banks and finance companies plummeted in the period between 2001 and 2004, the returns given by the Pilgrims Fund has increased from 3.25% in 2001 to 4% in 2003.

Membership and registration for pilgrimage

Members normally consist of, but are not restricted to Malaysian Muslims who have the intention and normally the capacity, physical or otherwise, to go for pilgrimage. Lately, because of improvements in the provision and quality of service, membership is also accepted from Muslims who are less privileged, i.e. disabled, or poor. Membership is also open to resident Muslims from Indonesia, Singapore, Pakistan, India, Thailand, South Africa and other countries who have passed a health check. Muslims who see the fund as a savings institution are also invited to join.

There is no necessity for the members to continue contributing but most contribute either at periodic intervals e.g. through monthly salary deduction, or randomly by depositing such amounts of money as and when appropriate. Members who register for pilgrimage must have a minimum deposit of RM1,300 in their account. They will be charged RM90 to process their registration and RM3 for a health record book. They will be served on a first-come-first-served basis and if their request to go for pilgrimage in a certain year cannot be fulfilled, they will automatically be registered for pilgrimage in the following year.

The previous section discussed on the Pilgrims Fund. In accordance with the first research objective, the following section will discuss on the findings on the risk perception with respect to cultural theory (Douglas, 1966 and Thompson, Ellis & Wildavsky 1990) and the findings on risk communication within the organisation.

Risk perception within the Pilgrims Fund

Amongst the objectives of the Pilgrims Fund is to receive deposits as a "saving towards the pilgrimage of the individual to the Holy Land[43]". Accordingly, the risk

[42] This information was given by the Corporate Communications Manager during an interview.
[43] Section 16(2)(a) of the Pilgrims Fund Act, 1995.

rationality of the organisation is religious i.e. for the good of the community, thus as per Douglas[44], the organisation is an egalitarian organisation.

Egalitarians have strong group loyalties but little respect for externally imposed rules, other than those imposed by nature. Group decisions are arrived at democratically and leaders rule by force of personality and persuasion. Members of religious sects, communards, and environmental pressure groups all belong to this category. Egalitarians emphasize cooperation and equality rather than competition and freedom. They focus on long term effects of human activities and are more likely to abandon an activity (even if they perceive it as beneficial to them) than to take chances. They are particularly concerned about equity.

Egalitarians are also known as enclaves. This culture has strong groups, and weak structure. They are social groups with strongly barred frontiers and very feeble internal regulation of any kind. They have rules that regulated their contact with the outside, but inside the group they avoided social differentiation. Being a dissenting minority, this group will have difficulties in preserving itself, threatened without by the society that it regarded as corrupted by wealth and power, and threatened from within by disaffected members, its political life would be very insecure. The leaders would constantly fear defection of members. Their best remedy was to paint the non-members as thoroughly evil, proved whenever their relations with the outside turned violent. One of the disadvantages of a group conforming to this condition would be the difficulty of establishing authority and the consequent weakness of leadership.

Their critical rationality is to 'Tread lightly on the earth.' They have a communal rationality which stresses the importance of fraternal and sororal cooperation, and therefore strives for social relationships that are voluntaristic and egalitarian. However, since this desired state of affairs is always threatened by the encroachment of hierarchy (which brings status differences) or by excessive individualism (which all too easily introduces inequalities of wealth, power and knowledge), collective identity has all the time to be sustained by a shared and strident criticism of what

---

[44] www.chass.utoronto.ca/epc/sib/cyber/douglas1.pdf, p12, not dated.

goes on outside the group. Historically, this rationality has been the driving force of socialism (but as that movement has grown, it has been increasingly diluted by hierarchy and political entrepreneurialism) and today it is alive and well as the preferred organisational form of the Greens (and of many single-issue public interest groups in the United States). Risks should be avoided unless they are inevitable to protect the public good. (Douglas 2005; Adams 1995; Renn 1992b and Schwarz & Thompson 1990).

This answers the first research question in the first research objective, i.e. which rationality do the organisations belong to as per their stated incorporation objectives?; the Pilgrims Fund belongs to the egalitarian rationality as per their incorporation objective. However, the findings from the interviews and the questionnaires showed that this was not the case for the members within the organisation.

Risk perception from interviews

Table 25 shows the risk perception of the Pilgrims Fund interviewees as per Thompson, Ellis and Wildavsky (1990).

The ex-pilgrim interviewed was not included in Table 25 because being an ex-pilgrim he does not belong within the organisation (i.e. he is a stakeholder) and his risk perception did not represent the risk perception of people within the organisation[45].

Referring to Table 25, the researcher made the categorisation based on the answers given during the interview. The Branch Operations Manager (personal communication) responsibly answered all questions asked. She gave visual representations of documents used as internal rules and regulations, including the Financial Procedures Manual and the Desk Manual which must be made available for use to every employee. She agreed that it is the responsibility of the managers to make sure proper documentation is available, and that, some departments may be

[45] Findings from the interview with the stakeholder, findings from the questionnaires, together with documentation review forms a basis for Table 26: Conflicting perceptions in the members-organisation debate and the stakeholder group in the next chapter.

Table 25: Risk perception of the Pilgrims Fund interviewees
Source: Douglas (2005), Adams (1995), Renn (1992b) and Schwarz and Thompson (1990).

Position	Risk perception
Branch Operations Manager – despite acknowledging his position as a manager, the manager emphasizes cooperation and equality rather than competition, strong group loyalty, stresses the importance of fraternal and sororal cooperation, and strives for social relationships that are voluntaristic and egalitarian	Hierarchist-Egalitarian
Corporate Communications Manager - believes in the effectiveness of organisational skills and practices, emphasize cooperation, risks should be avoided unless they are inevitable to protect the public good.	Hierarchist-Egalitarian
Human Resource Development Manager - the well-being of the community does not come above the well-being of the individual.	Individualist
Information Technology employee - strong group loyalties but little respect for externally imposed rules, other than those imposed by nature; emphasize cooperation and equality rather than competition and freedom ; particularly concerned about equity.	Egalitarian

short of one or two internal regulations. Throughout the interview she showed a strong sense of dedication to the organisation and commitment to her subordinates.

The Corporate Communications Manager (personal communication) gave access to the Annual Reports needed for the study. Due to his experience being the head of communications in Pilgrims Fund branch offices prior to this vocation, he seems to be a hierarchist-egalitarian, i.e. he showed extensive knowledge of the organisation and his job, and he expected his subordinates to know their responsibilities. At the same time he treated his subordinates as equals and was willing to discuss the values expected of the Fund with them.

The Human Resource Development Manager (personal communication) was apparently a strong individualist. He said that even though there were courses conducted for human resource development in the previous year, the courses were conducted through outsourcing and that he was not directly responsible for any of them; despite the fact that his department do conduct hospitality courses for tellers and cashiers throughout the previous year. He refused to give further information regarding human resource development within the Pilgrims Fund, repeatedly saying that he would not have any information to give for this research. It was apparent that he saw the researcher as a possible threat to his position, i.e. the researcher was perceived as seeking wrongdoings on his part and he was trying hard to avoid her questions.

The Information Technology employee (personal communication) was interviewed off-location where he seemed more 'free' to relate his experience relative to the others interviewed on location; since he did not appear to be afraid of scrutiny by his superiors since the interview was held not within the Pilgrims Fund premises. He stated that Pilgrims Fund has undergone a lot in the past few years but the scenario is changing for the better. He stated that in terms of technological investments, Pilgrims Fund has taken big steps towards securing its information, and has seen higher deposits due to the electronic banking since 2003 and the waiving of the strict "only two withdrawals a year" ruling. He stated that Pilgrims Fund is unique in the sense that its contributors deposits money for religious values, and given the fact that Pilgrims Fund is the monopoly for pilgrimage, they do not have any other alternative but to make themselves heard should they believe that the Fund is not applying religious principles.

In terms of the management values, in the Pilgrims Fund, the interviews showed that there was some susceptibility towards the individualist rationality. Delegation was apparent. This attitude for delegation of duties in the management was confirmed when the first interview the researcher was supposed to have with the Corporate Communications General Manager was instead delegated to one of his managers.

Internal risk communication from interviews

From the interviews, it was found that there was internal risk communication within the organisation. Communication took the form of inter-departmental meetings as and when the need arise, for example the annual assessment on pilgrimage procedures which was conducted every end of the pilgrimage season; and meetings between heads of branch offices with top management for promoting direct communication of information. The inter-departmental meeting would normally be chaired by the Chairman, but during the times when he was not available, the meeting would be chaired by the next higher ranking management. Other modes of communication include using the telephone and an internal memo system.

In terms of the application of internal control rules and procedures, it can be seen that although inter-departmental meetings were held within the organisation, these were held as and when the need arises and were in no way held at specific intervals of time. There was no specified day within a week that management could say was a day to prepare for a management meeting. As such, this may result in management slacking in their performance as compared to the case where they know they would be answerable, for example, each week. The fact that the Chairman may not be present at meetings could be interpreted to be his non-commitment in the day-to-day running of the organisation. If the Chairman does not show his sense of commitment, subordinates could assume a similar stance.

Besides interviews, although there was utilisation of other modes of communication, such as the telephone and the internal memo system, the absence of conversation recordings or certification by the person receiving the memo provided no proof of communication. Thus, even though there were internal control rules and procedures, it seems that these rules and procedures could be improved.

The interview sessions also revealed that some employees in critical departments may be missing the Works Procedures Manual as well as their Desk Files. This is in breach of the Public Service Administration and Development Circular Number 8 of 1991. The two documents provide details of how their work should be executed, and its absence will render the employees incapable of performing their job well. Table 26 shows the perceptions in the employees-organisation debate within the Pilgrims Fund[46].

---

[46] Based on information from interviews, questionnaires and documentation review.

Table 26: Perceptions in the employees-organisation debate within the Pilgrims Fund

Employees' analysis	Organisational analysis
Political consequences	
• Government and organisation serves the objectives of the organisation. • The management represents a concentration of political power and an omnipotent bureaucracy (hierarchist-individualist).	• Government and organisation only serve to implement agreed-upon political objectives. • Government acts in the public interest. Bureaucracy is necessary for efficiency.
Economic and social consequences	
• Listing of subsidiary on the stock exchange will give higher returns. • Investment of funds in stock exchange and in other government has been approved by *Shari'ah.*	• Listing of subsidiary on the stock exchange will reap better economic benefits. • Investment of funds is necessary for growth and national development.
Role of government	
• Government should act in the best interests of the pilgrims. • Government should protect members' resources against unclean investments.	• Government should defend public interest against special interests. • Government should ensure members' resources generate returns on investments.
Role of religious expertise	
• Religion could be manipulated for alternate ends. • Religion could be misunderstood. • The problem is one of trusting the religious panel, thus limiting the acceptability of risk.	• Religion is neutral. • Religion is flexible. • Proactive rather than reactive, religious panel discussions are to evaluate risk acceptability.

(Adapted from Nelkin & Pollak 1982, as cited in Schwarz & Thompson 1990, p. 35).

Risk perception from questionnaires

Based on the responses given to the questionnaires on the attitudes towards risks of individuals in the Pilgrims Fund as per the identification of rationalities to each question – strongly agree, (Table 13 in Chapter 3) and the identification of rationalities to each question – strongly disagree, (Table 14 in Chapter 3) it was found that the respondents in the Pilgrims Fund strongly agreed to 83% of questions that hierarchists would strongly agree to. They also strongly agreed to 22% of questions that individualists would strongly agree to and to only 25% of questions that egalitarians would strongly agree too. They do not strongly agree to the question that fatalists would agree to.

Comparing the findings from the questionnaires to the identification of rationalities to each question (strongly disagree) as per Table 14, the Pilgrims Fund respondents strongly disagreed to 33% of the questions that hierarchists would strongly disagree too, and they also strongly disagreed to question 55, which is the question that fatalists would strongly agree to.

From the questionnaire findings, the respondents from the Pilgrims Fund can be generally classified as a hierarchist. Therefore, the answer to the second research question in the first research objective is that people within the Pilgrims Fund had hierarchist rationality. Referring back to the first hypothesis, if the risk rationality of the organisation and the individuals within it is similar, the organisation should work well together. It is apparent that the risk rationality of the organisation in this case is egalitarian and the risk rationality of the individuals within it is hierarchist, therefore, for the Pilgrims Fund, since the risk rationality of the organisation and the individuals within it is dissimilar, the organisation may not work well together.

Pilgrims Fund: Values and culture

Through its objectives, the Pilgrims Fund is an egalitarian organisation. Members attach utmost importance on achieving the ambition of fulfilling their responsibility as a Muslim in a community. The interviews carried out portrayed three of the four respondents were egalitarian or hierarchist-egalitarian although the Training Manager seems to assume the individualist rationality. However, the questionnaires showed a higher percentage of respondents with the hierarchist rationality within the organisation.

Within the Pilgrims Fund, a risk committee is in existence, but several managers interviewed expressly stated there is no risk committee within the organisation or that it is still in the planning process, whilst being depicted very clearly in the organisation chart shown in the Annual Report of the organisation. This proves low internal visibility, in an organisation with a high public profile. The low internal visibility may be due to the infrequent explanatory meetings between members of the management and the employees.

In terms of the values and culture, the members of the Pilgrims Fund due to their commitment to their religion, are viewed as egalitarians. Based on its objectives, the organisation is an egalitarian organisation, although the interviewees and respondents to the questionnaires show tendency towards the hierarchist rationality. Generally, the main features that characterise conflicting perceptions amongst members and the Pilgrims Fund are shown in Table 27.

The main features are political consequences, economic and social consequences, role of government and role of religious experts. In the political consequence, the members see the government and the organisation as acting together to achieve political goals, for example when the Prime Minister suggested the Pilgrims Fund to go ahead with the listing of a subsidiary, TH Plantations. They also see the Minister and the board as having omnipotent power, apparent when major investment decisions must be approved by both the Minister-in-charge and the board. On the other hand, the organisation sees itself and the government as serving objectives that were agreed upon together, and not in its own accord. The Pilgrims Fund sees itself as acting in the public interest and that bureaucracy helps to maintain efficiency.

In terms of economic and social consequences, the members are totally against tainting of the savings. Thus they opposed the listing of the income-generating subsidiary, TH Plantations. However, the Pilgrims Fund explained that only a minority of the shares of the subsidiary company will be floated on the stock exchange whilst the majority will still be held by the Pilgrims Fund. The Pilgrims Fund views investment as necessary to reap income, and to do this religiously, the organisation seeks the advice of the Islamic Bank *Shari'ah* Committee.

In terms of the role of the government, members see the government as a protector that could advise the organisation against unclean investments. The organisation, on the other hand, sees that the government should protect the public interests against special interests. Due to the fact that only a minority of members have religious expertise, this minority seems to be the one that the organisation see as having special interests, when they actually are representing a greater section of the members, thus the conflicting perception between the two. Table 27 shows the perceptions in the members-organisation debate within the Pilgrims Fund[47].

Table 27: Conflicting perceptions in the members-organisation debate

Members' analysis	Organisational analysis (Pilgrims Fund)
Political consequences	
• Government and organisation are in collusion with little reference to broader political goals. • The Minister and the board represent a concentration of political power and an omnipotent bureaucracy.	• Government and organisation only serve to implement agreed-upon political objectives. • Government acts in the public interest. Bureaucracy is necessary for efficiency.
Economic and social consequences	
• Listing of subsidiary on the stock exchange will lead to economic impurities. • Investment of funds in stock exchange and in other government activities means tainted savings.	• Listing of subsidiary on the stock exchange will reap better economic benefits. • Investment of funds is necessary for growth and national development.
Role of government	
• Government should defend members against the organisation. • Government should protect members' resources against unclean investments.	• Government should defend public interest against special interests. • Government should ensure members' resources generate returns on investments.
Role of religious expertise	
• Religion could be manipulated for alternate ends. • Religion could be misunderstood. • The problem is one of trusting the religious panel, thus limiting the acceptability of risk.	• Religion is neutral. • Religion is flexible. • Proactive rather than reactive, religious panel discussions are to evaluate risk acceptability.

(Adapted from Nelkin & Pollak 1982, as cited in Schwarz & Thompson 1990, p. 35).

In terms of the role of religious experts, the members have the perception that since religion could be manipulated and misunderstood, the religious panel may be biased towards agreeing with the courses of action of the organisation. On the other hand, the organisation sees religion as neutral and flexible and discussions with religious experts are made so as to evaluate acceptability of risks.

[47] Based on information from interviews, questionnaires and documentation review.

The above section discussed the values and culture within the Pilgrims Fund. The next section will discuss the Islamic risk system before examining the risk reporting within the Pilgrims Fund's Annual Financial Statements.

Islamic risk system

Before discussing risk reporting in the Pilgrim's Fund Annual Financial Statements, this section will discuss the Islamic risk system in relation to the Pilgrims Fund. In Islam, importance is placed on the integrity of the individual, and all actions of the individual should be based on *Al-Qur'an*. Although the Pilgrims Fund is an organisation and not an individual, its actions are determined by the individuals within as a group, i.e. both management and employees, and in Islam, together they are accountable to the human society and beyond (Haniffa 2001). Similarly, two important criteria for Islamic accounting identified by Baydoun and Willet (2000), are, firstly, a form of social accountability and secondly, a rule of full disclosure.

As compared to the regulated reporting, Islamic risk reporting system requires full disclosure. Ideally, this means transparency between the individuals within the organisation and their audience especially the contributors whose money they are managing. Transparency entails discussing and explaining all issues and problems. In Islam, the best way to resolve issues and problems is by having meetings of all parties whose interests are involved. To promote understanding of the issues and problems, all discussions and explanations should be done with the help of a committee of religious experts. The discussion and explanations will constitute part of risk reporting. Since all issues and problems are discussed together with the fund owners, the consequences to the unanimous decisions should be borne together.

The risk reporting meetings understandably would not be able to disseminate information to the audience at large, thus ideally, the use of the weekly address in the Friday prayers. Given that Friday prayers are conducted by Muslim leaders, the audience would be rest assured that their savings are not tainted as the Muslim leaders would have objected.

In the case of the Pilgrims Fund, although there are meetings to resolve issues and problems, these meetings are normally management meetings which restrict the presence of any representatives from the audience. Dissemination of information regarding the Pilgrims Fund through Friday prayers is not feasible in Malaysia, since the address is bound by a set of very thorough laws restricting any disclosure of materials which may incite tension. In the Pilgrims Fund risk committee, not all members are experts on religion. In fact only one of the nine members (11%) of the investment panel is a religious expert and it should be noted that all decisions of the panel are based on a majority vote. Therefore, even if the religious expert voted no for religious reasons, he may be outvoted by the other members of the investment panel since there is no express ruling stating that every committee member should heed the advice of the religious expert.

In terms of risk reporting, there is no risk reporting system other than that required by the Treasury, the Public Service Department and the Malaysian Accounting Standards Board. It is questionable that the Pilgrims Fund has not voluntarily opted to provide a comprehensive and continuous transparent risk reporting system as is promoted by Islamic law, considering it has voluntarily offered itself to the different commendation awards, and that it has the resources (i.e. religious expertise and money) to do so. It is apparent that the Pilgrims Fund is an organisation divided between a religious purpose, i.e. promoting savings for pilgrimage and at the same time, a profit motive, i.e. investing for profit.

In terms of risks, perhaps it is not wrong to say that the Pilgrims Fund is a political organisation. It was set up by the Parliament, as an arm of the Federal Government, and overseen by a Minister-in-charge from the ruling party. Its actions are therefore strongly scrutinised by members of the opposition party. This opposition party was set up with religion as its basis, and its members are mostly religious experts. Transparency is required by the opposition party as their religious right. Where there have been losses, it seems that the ex-Minister-in-charge wanted to cover up and deny his wrongdoings. The risks involved giving transparent accounts to the audience, which includes the opposition and this is very difficult when each policy system has their own agenda. Pilgrims Fund perhaps has probably taken the simplest way out by keeping silent, but the organisation seems to be forgetting its accountability beyond humanity.

Risk reporting: The Pilgrims Fund's Annual Financial Statements (1996-2003)

Each year the Pilgrims Fund states in its notes to the accounts that it conforms to the regulated accounting standards in Malaysia, subject to *Shari'ah* law. It is also noted that the Pilgrims Fund did not make disclosure of the value-added statement as recommended for Islamic financial institutions (Baydoun & Willet 2000) (See Table 4 in Chapter 2). In this section, the first set of findings shows significant risk points that should be noted in the Annual Financial Statements of the Pilgrims Fund during the period of study. These significant risk points are necessary to determine the extent of risk reporting by the Pilgrims Fund.

1. Significant risk points to be noted on the Annual Financial Statements

Table 28 enlists the items comprising the Annual Financial Statements and the years in which they are disclosed. The numbers in brackets show the Annual Financial Statements years that contained the corresponding information. Asterisks denote that there is more detailed information regarding the respective items in the Notes to the Accounts. It was found that throughout the period 1996 to 99, the statement of affairs consisted of the Chairman's Statement and the Performance Report by the Chief Executive Officer on all the different departments within the Pilgrims Fund. Beginning 2001, the Chief Executive Officer no longer reports on performance. Instead, the statement of affairs only contained the Chairman's Statement and Information on Operations, which was labelled as 'Corporate Information' beginning 2002.

As per the first research question of the second research objective, i.e. What are the rules and regulations on the Annual Financial Statements; these are as per Table 20 and with effect from the Annual Report for 2000, include rules as per Table 21. For the second research question of the second research objective, i.e. Who imposed them?; the rules in Table 20 are mainly imposed by the Treasury together with the Public Service Department (in the form of Treasury Circulars and the Service

Circulars) whilst those in Table 21 are imposed by the Malaysian Accounting Standards Board.

As per the third research question, i.e. is there any specification on risk reporting in the rules and regulations?; there is apparently none. For the fourth research question, i.e. is there any disclosure by the organisations of voluntary compliance to any other reporting rules and regulations?; the answer is yes, with respect to the Pilgrims Fund, since they claim to follow *Shari'ah* law. As per the fifth research question, i.e. what information is given in the regulated Annual Financial Statements?; for the Pilgrims Fund, this is shown in Table 28. As per the sixth research question, is there any risk reporting in the Annual Report and if there is, in which section is this done?; the answer is a definite yes, and it is done in both the statement of affairs and the Annual Financial Statements sections of the Annual Report. As per the seventh research question, What categories of risks have been disclosed?; this is shown in Table 33, the summary of risk disclosure categories for the Pilgrims Fund.

Table 28 shows the risk items disclosed in the Pilgrims Funds Annual Financial Statements.

Table 28: Risk items disclosed in the Pilgrims Fund's Annual Financial Statements.

Auditor-General's Certificate 1996, 97, 98, 99, 01, 02, 03.
Auditor-General's Report 1996, 97.
Management's reply to the Auditor-General's Certificate and Report 1996, 97, 98, 99, 01.
Statement by the Chairman and a Member of the board of directors 1996, 97, 98, 99, 01, 02, 03.
Statutory Declaration by the Senior Officer in Charge of Pilgrims Fund's Financial Management 1996, 97, 98, 99, 01, 02, 03.
Profit and Loss Account 1996, 97, 98, 99, 02, 03.
Balance Sheet 1996, 97, 98, 99, 01, 02, 03.
Statement of Changes in Reserves (1996, 97, 98, 99 – renamed[48] and enhanced with significant information) 01, 02, 03.
Cash Flow Statement 1996, 97, 98, 99, 01, 02, 03.
Notes to the Accounts 1996, 97, 98, 99, 01, 02, 03.

[48] In 2001 the Statement of Changes in Reserves was called the Statement of Changes in Equity.

Similar to the private sector, the Auditor-General's Certificate certifies that the accounts have been prepared in a true and fair manner. The Auditor-General's Report is a management letter detailing the aspects of accounting inconsistencies that were discovered during the audit process which should be given attention; it specifically states the issues that should be addressed by the management from the Auditor-General's point of view. There were no management letters issued to the Pilgrims Fund post 1997. The Management's reply to the Auditor-General's Certificate and Report are the answers given by the Chief Executive Officer in response to the qualifications, if any, in the Auditor-General's Certificate and the Auditor-General's Report. This represents a communication from the Chief Executive Officer to the Auditor-General. There is no statutory requirement that the Management's reply should be included in each year's Annual Financial Statements but this was disclosed by the Pilgrims Fund.

The Statement by the Chairman and a Member of the board of directors is a statutory declaration made according to the Malaysian Statutory Declaration Act 1960, to state that the Annual Financial Statements have been prepared in a true and fair manner. The Statutory Declaration by the Senior Officer in charge of Pilgrims Fund's Financial Management is a statutory declaration by the General Manager of the Asset Management and Finance Department declaring that he believes the accounts have been prepared in a true manner according to the requirements of the Statutory Declarations Act 1960. Both the Profit and Loss Account and the Balance Sheet contained items which were either given or explained in further detail in the Statement of Changes in Reserves (which was named as the Statement of Changes in Equity and given massive improvements since 2001) (see Table 31: List of accounting risk disclosure – the Pilgrims Fund's Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Accounts).

A list of the accounting disclosures made in the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Reserves, the Cash Flow Statement, and the Notes to the Accounts are shown in the following tables. Items not shown in the statements in a particular year may appear as Notes to the accounts for that year. Table 29 shows the items disclosed in the Pilgrims Fund's Profit and Loss Account.

Pilgrims Fund: Profit and Loss Account (1996-2003)

Table 29: List of accounting risk disclosure – the Pilgrims Fund's Profit and Loss Account

(* next to an item shows there is accompanying Notes to the Accounts for the item)

Turnover (1996*, 97*, 98*, 99*) **Revenue** (2001, 02*, 03*)
Sale of goods (2001)
Sale of property (2001)
Services (2001)
Contract revenue (2001)
Investments (2001)
Dividends (2001)
Costs (2001)
Sale of goods (2001) Cost of sales (2002*, 03*)
Sale of property (2001)
Services (2001)
Contract realised as expenditure (2001)
Investments (2001)
Gross profit (2001, 02, 03*)
Administrative costs (2001, 02, 03)
Miscellaneous operating costs (2001, 02, 03)
Miscellaneous operating revenue (2001, 02, 03)
Profit/(loss) from operations (2001*, 02*, 03*)
Financing/borrowing cost (2001, 02, 03)
Share of profit/(losses) of associated companies (2001, 02, 03)
Share of profit in joint-venture companies (2002*, 03*)
Investment income(2001)
Loss from dissolution of consolidation (2001)
Provisions and write offs (2003)
Profit before *zakat* and taxation (1996*, 97*, 98*, 99*, 2001, 02, 03)
Share of profit/(losses) of associated companies (1997, 98, 99)
Business *zakat* (1996*, 97*, 98*, 99*, 2001*, 02*, 03*)
Taxation (1996*, 97*, 98*, 99*, 2001*, 02*, 03*)
Profit after *zakat* and taxation and before minority interest (1996, 97, 98, 99, 2001, 02, 03)
Minority interest (1996, 97, 98, 99, 2001, 02, 03)
Profit for the current year after taxation and minority interests (1996, 97, 98, 99, 2001, 02, 03)
Extraordinary items (1996*)
Profit for the current year after taxation and extraordinary items (1996)
Amortisation of goodwill (1996)
Profit accumulated since prior years (1996, 97) unappropriated profits brought forward (1998, 99)
As reported previously (1996, 97)
Prior year's adjustment (1996*, 97*)
As restated (1996, 97)
Dilution in interests (1999)

Table 29: List of accounting risk disclosure – the Pilgrims Fund Profit and Loss Account (continued)

(* next to an item shows there is accompanying Notes to the Accounts for the item)

Profit before appropriation (1996, 97) Profits available for appropriation (1998, 99)
Appropriation:
Bonus paid (1996*, 97*, 98*, 99*)
Proposal fund (1996*, 97*)
Accumulated profit brought forward (1996, 97) Unappropriated profits carried forward (1998, 99)
Kept by: (1996, 97) Unappropriated profits (absorbed)/retained in (1998, 99)
Pilgrims fund (1996, 97, 98, 99)
Wholly owned companies (1996, 97) Subsidiary companies (1998, 99)
Associated companies (1996, 97, 98, 99)

In the profit and loss account, over the period of study, six significant risk points are noted. Firstly, there have been some changes in the way the items are reported, for example, the usage of different terminologies to represent similar items between 1997 and 1998 (for example, "Accumulated profit brought forward" was used in 1996 and 1997 whereas "Unappropriated profits carried forward" was used in 1998 and 1999 and the term "Profit before appropriation" was used in 1997 whilst "Profits available for appropriation" was used in 1998 and 1999), between 1999 and 2001 (for example, "Turnover" was used in 1996 to 1999 and this became "Revenue" in 2001 to 2003); and between 2001 and 2002 (for example, under costs, "sale of goods" was used in 2001 whilst "cost of sales" was used in 2002 and 2003). A question that came to mind when noting this was if this behaviour of using different terminologies was an attempt at avoiding transparency whilst complying with the regulations.

Secondly, there is also a significant disclosure of items prior to the Gross Profit in year 2001 compared to that disclosed in prior and post years. This increase in disclosure in 2001 corresponds with a change in the Chairman and his team of management who basically consists of professional accountants, businessmen and consultants. The increase in information disclosure may be an attempt to show that they are transparent, i.e. a change from the previous management team.

Thirdly, the sequence in which the items were presented was changed between 1999 and 2001. For example, an item 'Share of profits/ (losses) of associated companies' was listed after the item 'Profit before *Zakat* and taxation' in the profit and loss accounts prior to the year 2000, but was listed before it in the profit and loss accounts post 2000. It seems that the emphasis was on the organisation prior to 2000, because the Pilgrims Fund declared profits as an organisation. Post 2000, the emphasis seems to be on the group as profits were declared as group profits.

Fourthly, some items which were shown in the profit and loss account prior to 2000 were no longer disclosed post 2000 for example amortization of goodwill, the dilution of investments and the amount of profit appropriated for bonuses. It is apparent that there has been a more limited transparency after the introduction of the new regulations.

Fifthly, the Profit and Loss Accounts for all years except for the year 2001 did not disclose most items of costs before arriving at the gross profit. It is quite questionable as to why there were different degrees of transparency between 2001 and other years throughout the period. The researcher again attributes this to the change in management in 2001.

Sixth, the accounts for the years 1996 to 1999 showed more religious or value-based information from the "Profit before *Zakat* and taxation" to the "Distribution of Accumulated profit brought forward", whereas the accounts from 2002 to 2003 disclosed more economic-based information on Revenue, Cost of Sales, Gross Profits to the Profit for the current year after tax and minority interests. Post 2001, there seems to be lesser transparency where no information on Profit and Loss appropriation was given.

It seems that although the implementation of the Financial Reporting Standards may have influenced points four and six above, there is no definite reason as to why there were differences in reporting as noted in the other points other than the significant fact that there have been a major change in management. Prior to 2000, it seems as though the accounts have been prepared by a different set of people each year and each has their own preference for terminologies to use. This clearly posed difficulty for anyone who wanted to make a longitudinal comparison over the years, since usage of different terms to signify the same item may impede comparability. With the implementation of the new reporting standards in 2000, instead of giving value-based reporting, the Pilgrims Fund seems to have switched accordingly and have provided an economic-based reporting.

Throughout the six significant risk points, the theme seems to be for lesser transparency, changing to economic-based reporting which is in line with the introduction of the new reporting regulations. This is synonymous with less value-based reporting to the users of the financial statements. It is apparent that the change has resulted in a gap in provision of value-based information in the Annual Financial Statements, which the audience seems to request through other means accessible to them, for example the newspapers and web blogs. These reporting will be discussed later in this chapter.

Table 30 shows the list of accounting risk disclosures in the Pilgrim's Fund's Balance Sheet.

In the balance sheet, over the years, three significant risk points are noted. Firstly, there have been usage of different terminologies to represent similar items prior to the changes in accounting rules were made effective in the year 2000, i.e. between 1997 and 1998 but reverting back to the terminology used in 1997 for the 1999 balance sheet (for example "Work in progress" were used in 1997 and 1999 whereas "Construction in the process" were used in 1998; "Bank balances and savings" was used in 1996 and 1997, whilst "Cash and bank balances" was used in 1998 and 1999; and "Expenditure brought forward" was used in 1996 and 1997 whilst "Deferred expenditure" was used in 1998 and 1999; "Start-up expenditure" was used in 1996 and 1997 whilst "Pre-operating expenses" was used in 1998; "Investments in wholly-owned companies" was used in 1996 and 1997 whilst "Investments in subsidiary companies" was used in 1998 and 1999. "Property" was used in 1996 and 1997, "Real estate" was used in 1998 and "Investment properties" was used in 1999.

Secondly, there have been some different terminologies of items between 1999 and 2001 (for example, "Investment properties" was used in 1999 but "Real estate, Plant

Pilgrims Fund: Balance Sheet (1996-2003)

Table 30: List of accounting risk disclosure – the Pilgrims Fund's Balance Sheet

Assets: (1996*, 97*, 98*, 99*)
Bank balances and savings (1996*, 97*) Cash and bank balances (1998*, 99*)
Debtors (1996*, 97*, 98*, 99*)
Other investments (1996*, 97*, 98*, 99*)
Stocks (1996*, 97*, 98*, 99*)
Project advance payments (1996*)
Property development expenditure (1997*, 98*, 99*)
Work in progress (1997*, 99*) Construction in the process (1998*)
Expenditure brought forward (1996*, 97*) Deferred expenditure (1998*, 99*)
Start-up expenditure (1996, 97) Pre-operating expenses (1998)
Investments in associated companies (1996*, 97*, 98*, 99*, 2001*, 02*, 03*)
Investments in wholly-owned companies (1996*, 97*) Investments in subsidiary companies (1998*, 99*)
Investments (1996*, 97*, 98*, 99*)
Property (1996*, 97*) real estate (1998*) Investment properties (1999*)
Plantation development expenditure (1996*, 97*, 98*, 99*, 2001*, 02*, 03*)
Fixed assets (1996*, 97*, 98*, 99*)
Equity in joint-venture companies (1997*) Interest in joint venture company (1998*, 99*)
Real estate, Plant and Equipment (2001*, 02*, 03*)
Investments in subsidiary companies (2001*, 02*, 03*)
Financing for subsidiary companies (2003*)
Joint-venture entities (2001*, 02*, 03*)
Equity investments (2001*, 02*, 03*)
Financial investments (2001*, 02*, 03*)
Real estate in development (2001*, 02*, 03*)
Intangible assets (2001*, 02*)
Deferred tax (2003*)
Current assets
Inventories (2001*, 02*, 03*)
Amount owing from contract customers (2001*, 02*, 03*)
Real estate in development (2001*, 02*, 03*)
Trade and miscellaneous debtors (2001*, 02*, 03*)
Cash and cash equivalents (2001*, 02*, 03*)
Current liabilities
Trade and miscellaneous creditors (2001*, 02*, 03*)
Lease creditors (2001*)
Amount owing to contract customers (2002*, 03*)
Hire purchase creditors (2001*, 02*)
Financial lease (2003*)
Loans (2001*, 02*, 03*)
Taxes (2001, 02, 03*)

Table 30: List of accounting risk disclosure – the Pilgrims Fund's Balance Sheet (continued)

Liabilities
Creditors (1996*, 97*, 98*, 99*)
Short term financing (1996*, 97*, 98*, 99*)
Mortgage creditors (1997*) Lease creditors (1998*, 99*)
Hire purchase creditors (1997*, 98*, 99*)
Provision for taxation (1996*, 97*, 98*, 99*)
Long term financing (1996*, 97*, 98*, 99*)
Deferred taxation (1996*, 97*, 98*, 99*)
Depositors provident fund (1996*, 97*, 98*, 99*)
Reserves (1996*, 97*, 98*, 99*)
Proposal fund (1996*, 97*) Statutory deposits (1998*, 99*)
Development fund (1996*, 97*, 98*, 99*)
Minority interest (1996*, 97, 98, 99)
Financed by:
Equity capital and reserves:
Reserves (2001, 02, 03)
Depositors provident fund (2001*, 02*, 03*)
Development fund (2001*)
Minority interest (2001, 02, 03)
Long term liability (2001*, 02*, 03)
Hire purchase creditors (2001*, 02*)
Financial lease (2003*)
Loans (2001*, 02*, 03*)
Deferred tax (2001*, 02*, 03*)
Deferred income (2002*, 03*)

and Equipment" was used post 2000. It seems that the changes were made due to changes in the reporting regulations.

Thirdly, there was a more definite classification of balance sheet items post 2000. Prior to 2000, the items were classified into either "Assets" or "Liabilities" whereas post 2000, the items were classified into "Assets", "Current Assets", "Current Liabilities", "Net Current Assets", "Reserves", "Minority Interests", "Long term Liabilities and Deferred Income".

Table 31 shows the list of accounting disclosure in the Pilgrim's Fund's Statement of Changes in Equity.

Pilgrims Fund: Statement of Changes in Equity (2001-2003)[49]

Table 31: List of accounting risk disclosure – the Pilgrims Fund's Statement of Changes in Equity (later known as Statement of Changes in Consolidated Reserves)

Group:
Balance as at 1 January previous year (2001, 02, 03)
Effects of MASB 25 Time differences on tax (2003*)
Profits/(losses) in senior citizens and welfare fund (2001*, 02*, 03*)
Unrecognised losses in the profit statement: Difference in foreign exchange (2001, 02*, 03*)
Bonus credited to depositors (2002*, 03*)
Credit deficit under Section 108: Prior year's adjustment (2001)
Foreign exchange loss (Unrecognized income in the profit and loss account) (2001, 02, 03)
Balance as at 31 December previous year (2001, 02, 03)
Profits/(losses) in senior citizens and welfare fund (2001*, 02*, 03*)
Surplus on dissolution of consolidation (2001)
Profits from current year (2002, 03)
Bonus credited to depositors (2002*, 03*)
Transfers (2002)
Foreign exchange loss (Unrecognized income in the profit and loss account) (2001, 02, 03)
Balance as at 31 December present year (2001, 02, 03)

There seems to be indecision in naming this financial statement. The 2001 Statement of Changes in Equity was a massively improved descendant to the earlier Statement of Changes in Reserves prior to 2000.. The Statement of Changes in Equity for 2001 was unique because there seems to be more disclosure. It was columnised in the following order: Capital Reserves, Revaluation Reserves, Accumulated Profits for Senior Citizens and Welfare Fund, Accumulated Profits, Foreign Exchange Reserves and Total. It also contained two parts: the "Undistributable" section and the "Distributable" section. Besides showing the changes in the group equity, the 2001 Annual Financial Statement also showed items which were not disclosed in 2002 and 2003.

It was renamed the Statement of Changes in Consolidated Reserves in 2002 and 2003. The Statement for 2002 and 2003 did not have any reference to "Undistributable" or "Distributable" and only stated items similar to the

[49] Prior to the year 2000, this statement is known as the Statement of Appropriation.

"Undistributable" section of the 2001 Statement. The Statement of Changes in Consolidated Reserves showed the summary of how the Current year's net profits were appropriated.

Due to their length, the Pilgrims Fund's list of accounting risk disclosure in their Consolidated Cash Flow Statement and their Notes to the Accounts for the period of study are not included in this thesis but will be available on request. Notes on the significant risk points in both the Consolidated Cash Flow Statement and the Notes to the Accounts are as follows.

Pilgrims Fund: Cash Flow Statement (1996-2003)

There were two significant risk points over the period of study in the Consolidated Cash Flow Statement. Firstly, the terminologies used over the years have not been uniform, for example "Profit/ (Loss) on sale of Fixed Assets" in 1996 and 1997, "Gain on disposal of Fixed Assets" in 1998 and 1999 and "Gain on disposal of Real Estate, Plant and Equipment" in 2001, 2002 and 2003.

Secondly, due to the vast number of cash inflows and outflows during the year, there may be a possibility that the same item have been labelled with different names, for example "Deposits with licensed banks" and "Cash and bank balances" may have referred to the same item. However, as there is no elaboration of the items contained in the Consolidated Cash Flow Statements in the Notes to the Accounts, this cannot be verified.

Pilgrims Fund: Notes to the Account (1996-2003)

Significant risk points to note are firstly, the usage of varying degrees of specificity in terminologies. For instance, "Goodwill" was mentioned in 1996, 1997, 1998, 2001, 2002 and 2003, but in 2002 "Intangible assets" was introduced, and was comprised of both "Goodwill" and "Communication and Multimedia licence". In 2003, "Intangible assets" and "Goodwill" were noted but there were no mention of them anywhere in the Balance Sheet.

Secondly, there were uses of ambiguous terms that may have been more specified in other instances, for example, using "Expenditure brought forward" to represent "Pre-incorporation Expenses in Subsidiary Companies" in the years 1996 and 1997, and then using the term "Deferred expenditure" in 1998 and 1999 for the same item.

Thirdly, the way in which the information on profit was reported improved from year 2001 to year 2002 and 2003. For instance in the year 2001, the Notes to the Accounts on the Profits from Operations contained detailed information regarding the operational income and expenses, and more so in the years 2002 and 2003 where a summary showed the main sources of income as well as the main expenses, i.e. information on Gross Profit.

Fourthly, there were integration of items that may have earlier been in different categories, i.e. "Short-term fundings" as stated in the financial statements prior to 2002 was later combined with "Other long-term borrowings" to form just "Fundings".

Fifthly, there are some accounting terminologies that have been used throughout the Notes for explanation that may not be easily understood by the general public, for example, the notes on "Significant events" and the "Financial instruments" (See Table 32). Due to the use of the accounting terminologies, the information is less transparent to the lay persons for whom the reports were prepared.

Table 32: Items that may not be easily understood in the notes to the accounts

Significant event: In August 1998, the government of Malaysia has decided to take over 40% of TH Technologies Sdn Bhd's (THT) share equity in Express Rail Link Sdn Bhd (ERL). Subsequently, in November 1998, the government has reversed the decision and instead, offered THT to take over an additional 20% shares in ERL. As at the date of the Annual Report, THT was still having on going discussions to determine the equity price of the additional shares. In 1999, there were two matters related to associated and subsidiary companies which were in their final stages of negotiations. In 2001, it stated that one subsidiary did not have full control on a wholly owned subsidiary, and therefore the consolidated accounts were not prepared. On 8 December 2001, the works department wrote to a sub-subsidiary regarding a road project valued at RM97 million. The subsidiary owns 60% of the shares of the sub-subsidiary. In 2002, several rationalisation measures were made. Firstly, a subsidiary, TH Universal Builders will sub-contract incomplete work on a building project to another subsidiary TH Technologies. Secondly, Pilgrims Fund will write off 70% effective ownership on TH_NSTC to another fully owned subsidiary, TH Properties. Thirdly, part of the business operations of TH Global Services will be transferred to TH Travel & Services, (both subsidiaries of Pilgrims Fund), and part of the business operations will be terminated. TH Global Services will become inactive. Fourthly, TH Plantations was appointed as the managing agent for all of Pilgrims Funds plantations. Fifthly, the operations of TH Computers were terminated and their subsidiary, CRF Computer Recovery was sold.
Financial instruments (2003): Based on the Pilgrims Fund Act 1995, the depositors' savings are guaranteed by the government. Loans risk exposures exist in the group's transactions. The board revises and approves policies to minimise this as follows: Loan risks: the management has a credit policy and the exposure of the group is monitored from time to time. Assessment on the ability to borrow was performed on all who require loans. As at balance sheet date, there is no specific focus on loan risks. Maximum loan risk exposure is presented in the balance sheet. Financial costs risks: The group funding is based on the *Shari'ah* concept where the profit margin is fixed throughout the loan duration. Fair value: Approved financial instrument: For cash and cash equivalents, Trade and miscellaneous debtors, Trade and miscellaneous creditors, carried costs are almost similar to fair value as a result of the short-term nature of this financial instrument.

The above section gave the significant risk points on the Annual Financial Statements over the period of study. In the following paragraphs, the second set of findings shows the risk disclosures categories within the financial statements. In the first part of this second set of findings, the risk disclosures in each financial statement was scrutinised according to ICAEW (1998).

2a. Risk disclosure categories within the financial statement as per ICAEW (1998)

The risk disclosure categories within the financial statements could be subdivided into firstly, the risk disclosure categories as per ICAEW (1998) and secondly, the risk disclosure categories adapted as per Maali, Casson and Napier (2006) integrated with the risk disclosure categories as per the ICAEW (1998).

Appendices Tables A1 to A4 are examples of the summary of the coding grid for the Pilgrims Fund. Due to the length of these tables for the remaining period of study, they were not included in this thesis but copies will be available on request. Also, although the researcher has tried to take the overall theme of the sentence, due to the subjectivity involved in determining the classification of risks there may have been miscategorisations of risk. To minimise this, the researcher has closely followed an adaptation of Linsley and Shrives (2006, p. 402) (See Table 18) decision rules for risk disclosures and the ICAEW (1998) categorisation of risks. The summary of the Tables A1 to A4 is given in Table 33, showing the different risk categories as per ICAEW 1998, the years when the risks were reported and the statements which have reported them.

The summary in Table 33 firstly shows that empowerment risk and information processing and technology risk were not disclosed throughout the period of study. As per ICAEW 1998, empowerment risk includes risks relating to leadership and management, outsourcing, performance incentives, change readiness, and communications. Information processing and technology risks refer to integrity, access, availability and infrastructure. Although the researcher obtained information relating to empowerment and information processing and technology risks through the interviews and internet searches, there was nothing relating to empowerment and

Table 33: Pilgrims Fund: Summary of risk disclosure categories 1996-2003

		Risk disclosure categories						
Year	Statement name	Financial risk	Operational risk	Empowerment risk	Information processing and technology risk	Integrity risk	Strategic risk	Total
1996	Auditor-General Certificate, Report and Replies from management		1			2		3
	Notes to the accounts		5					5
1997	Auditor-General Certificate, Report and Replies from management	1				6		7
	Notes to the accounts		9			2		11
1998	Auditor-General Certificate, Report and Replies from management		1			2		3
	Notes to the accounts	2	14				1	17
1999	Auditor-General Certificate, Report and Replies from management					1		1
	Notes to the accounts		27					27
2001	Notes to the accounts	6	27					33
2002	Notes to the accounts	8	32				1	41
2003	Notes to the accounts	9	27					36
Total		26	143	0	0	13	2	**184**

information processing and technology risks reported in the financial statements. Even though the absence of empowerment and information processing and technology risks reporting could mean that there was actually no such risks, this could also signify several other contributing reasons, for example, the reluctance of the leadership and management to disclose any incapability that they may have; the absence of reporting regulations on empowerment and information processing and technology risks reporting; and the application of attribution theory (Heider 1958; Kelley 1967; Jones, Worchel, Ooethals & Grumet 1971; Jones & Wortman 1973; Ross 1977 and Ross & Fletcher 1985) through the reluctance of the management to admit to their mistakes.

Surprisingly there was also no risk reporting on information processing and technology risks. According to ICAEW 1998, information processing and technology risks include integrity, access, availability and infrastructure risks. This absence of information processing and technology risk reporting is quite worrying since most contributors were aware of the frequent on-line computer system connection failures leading to system downs, especially in branch offices, therefore not allowing any deposits or withdrawals of money from their accounts some times for periods of up to a day. In fact the interview with the Information Technology employee of the Pilgrims Fund revealed that the computer systems constantly needed upgrading due to its inability to cope with the amount of daily on-line transactions. This may be due to the overwhelming amount of transactions that have to be processed by the computer system in recent years due to a lift of restrictions on the frequency of withdrawals, the introduction of online salary credits and the introduction of electronic banking.

There was also almost non-disclosure on strategic risks, i.e. environmental scan, industry, business portfolio, competitors, pricing, valuation, planning, life cycle, performance measurement, regulatory, and sovereign and political risks; and integrity risks, i.e. management and employee fraud, illegal acts and reputation risks. Considering the fact that there were some misinvestment of funds and identity fraud by persons impersonating contributors involving huge sums, there seems to be minimal disclosure in the financial statements.

Referring to Table 33, since 1996, the operating risks were best disclosed, followed by the financial risks. Operating risks mostly involved customer satisfaction together with efficiency and performance. Contrary to not showing any empowerment risks, there has been considerable information disclosure on efficiency and performance. This imbalance in disclosure suggested that perhaps there was a concerted effort to show the best of the organisation, for example, through disclosure of customer satisfaction; whilst at the same time, minimising exposures on the leadership and management, especially during 1997 to 2001 where, coupled with the economic slow down due to the financial crises, there have been high losses on investments and losses from fraud. Disclosure on financial risks included information on the exchange rate risks due to the fluctuations in the value of the Malaysian Ringgit.

Overall, the notes to the accounts show more risk disclosure compared to the Auditor-General Certificate, Report and Replies from management. This is most probably due to the fact that the notes to the accounts were prepared to give explanations that would otherwise not be given anywhere else. The Auditor-General Certificate, Report and Replies from management generally only contained information that was raised by the Auditor-General to which management gave a reply. It should be noted that no other financial statements were shown in Table 33 since they apparently do not contain risk disclosures, most probably due to the fact that they do not normally contain explanatory sentences.

In the years 1999 and after 2000 when the new reporting regulations were imposed, there was a notable increase in the number of risk disclosure especially in the notes to the accounts. The year 2002 shows the highest amount of disclosure. It seems that for the year 2002, more risk reporting was done compared to earlier years and 2003. Although there seems to be no apparent explanation for this, it may be attributed to the fact that the Pilgrims Fund was trying to provide more disclosure in view of its poor economic performance, i.e. trying to explain the reasons why and showing that they still secure the customers' satisfaction.

The amount of integrity risk reporting varied over the years. As per the ICAEW 1998 risk categories, integrity risks include management and employee fraud, illegal acts and reputation of the organisation. Although the amount of integrity risks reported in the financial statements were quite low. i.e. 13 for the period 1996 to 2003, contributors were quite concerned about the huge amount of funds involved. Newspaper reports revealed that the management and employee fraud included breaches of trust by two senior managers and illegal acts include an identity theft permitting withdrawals of large amounts of money from the account of a contributor[50].

Generally there was a difference in the format of presentation between Annual Financial Statements prior to the enforcement of the Financial Reporting Standards and those after. There was also a difference in practice because, although the statements were prepared on the basis of approved accounting standards, income was no longer stated using the cash basis as was formerly practised when reporting Islamic investment income under *Shari'ah* law.

This was apparent when the statements prior to the year 2001 stated that the accounts of the Pilgrims Fund have been prepared using the historical cost convention "in accordance with approved accounting standards and modified according to the requirements of *Shari'ah* law". The notes disclosed all pertinent information regarding the basis of accounting including basis of consolidation of subsidiaries' accounts, treatment of goodwill, the definition of associated companies, foreign exchange, depreciation of fixed assets such as buildings, plant and machinery and motor vehicles, amortisation of leasehold properties, retirement benefits for employees, treatment of expenditure for plantation development, treatment of initial and pre-incorporation expenditures of subsidiaries, deferred tax, stock, investments, recognition of income and the capitalisation of loan costs.

Due to the fact that the Pilgrims Fund claims to adhere to Islamic *Shari'ah law*, the second part of this section will look at the impact of the risk disclosure categories within the financial statement as per the adapted expected disclosures (Maali, Casson & Napier 2006) integrated with the risk disclosure categories (ICAEW 1998).

---

[50] See report on findings from the media.

2b. Risk disclosure categories within the financial statement as per adapted expected disclosures (Maali, Casson & Napier 2006) integrated with the risk disclosure categories (ICAEW 1998)

Although the Pilgrims Fund Annual Financial Statements shows a vast amount of information, most of the disclosures do not fulfil the expected disclosures as per Maali, Casson and Napier 2006 integrated with the risk disclosure categories (Table 16). It seems that the information reported were more general when the information required as per Maali, Casson and Napier 2006 was more specific. For example, the expected disclosure on *Zakat* requires a statement of sources and uses of *Zakat*, but the financial statements only showed the amount of *Zakat* paid.

After the implementation of the Malaysian Accounting Standards, in the years 2001 to 2003, more comprehensive internal control measures were employed, including a direct link with the Registration Department records, in addition to the existing fingerprinting and smart identity cards, although the explanation given was in the same degree of depth as previously offered. Explanations were also given in cases where there were changes in accounting policy or when there were revaluations of assets. The accounting disclosures also stated some problems persisted with the controlling interest in a subsidiary company. Beginning from the 2002 Annual Financial Statements, there were statements of adherence to the Malaysian Accounting Standards. Changes in accounting policy were disclosed in detail. However, as can be seen from Table 33 which shows the summary of the reported disclosures by Pilgrims Fund, few information was disclosed in the Auditor-General Certificate, Report and Replies prior to 1999 and in Table 35 only one additional information that was disclosed beginning 2001 in the notes to the accounts, i.e. the *Quard Hassan* amounts given to beneficiaries. The numbers in the "Items to be disclosed" column skips those items that were not reported.

From the findings, it was apparent that the expected disclosures as per Maali, Casson and Napier 2006 required more specific value-based information to be disclosed such as the Report of the *Shari'ah* Supervisory Board. However, an examination of the Annual Financial Statements showed that only general statements were made, for example, "*Zakat* was calculated based on the advice of the *Shari'ah* Committee of the Islamic Bank, taking into consideration business profits and capital". The ambiguity of the statements disclosed renders it inappropriate for the researcher to consider them as meeting the expected disclosure as per Maali, Casson and Napier (2006).

It seems that there was a significant amount of general disclosure in the Annual Reports of the Pilgrims Fund. However, on closer scrutiny, it is apparent that all the information above do not relate to the Islamic values as in the expected disclosures (Maali, Casson & Napier 2006) and thus the statements do not qualify as per Table 16 in Chapter 3, and therefore cannot warrant approval that the Pilgrims Fund disclose information in accordance to the *Shari'ah law*.

Table 36 shows the Depositors' Provident Fund Balances from 1995 to 2003 as disclosed by the Pilgrims Fund in its Annual Financial Report and its graph. Source: Pilgrims Fund Annual Report (1996-2003, not including 2000). The graph shows that despite the economic crises in 1997 and the sharp reduction in net profit in 2000, the contributors' confidence did not fade. However, coupled with the fact that there were loopholes in the withdrawals system involving fraudulent withdrawals of money by identity theft and misappropriation of funds by two senior managers, there seems to be a decrease in the contributors' confidence especially in 2002. Realising this decrease in savings, the Pilgrims Fund has published some promotional materials in an effort to restore the contributors' confidence, i.e. the special edition pull-out magazines on 5 January 2003 and 27 December 2003, the special promotional magazine 'Lets aim for success' and the monthly news bulletin during the period January to June 2005. However, it seems that the effort stopped there since no further promotional magazines or special edition pull-out magazines were published after then.

The second hypothesis states that 'The alignment of the organisation's risk rationality with the rule enforcer's risk rationality in each arena will determine the risk reporting practises.' In the case of the Pilgrims Fund, according to its organisational objectives, it is an egalitarian. However, questions in the interviews revealed the egalitarian, egalitarian-hierarchist and individualist rationalities of staff

Table 34: Expected disclosures (Maali, Casson & Napier 2006) integrated with risk categories (ICAEW 1998) in the Auditor-General Certificate, Report and Replies.

1996			
Area	Items to be disclosed	Risk disclosure category	Risk reported
Unlawful (*Haram*) transactions	1. Nature of unlawful transactions	Integrity risk-Illegal acts	1.Signing an agreement and making monetary payment without agreement from the board
	4. The amount of revenue or expenses from these transactions	Integrity risk-Reputation	Reported
1997			
Area	Items to be disclosed	Risk disclosure category	Risk reported
Unlawful (*Haram*) transactions	1. Nature of unlawful transactions	Integrity risk-Illegal acts	1.Non-payment of *Zakat* which was due 2.Shortage of funds between Depositors' Provident Fund and Depositors' Individual Accounts
	2. Reasons for undertaking such transactions	Integrity risk-Reputation	1.*Zakat* put into a fund for the welfare of pilgrims 2.Not relevant
	4. The amount of revenue or expenses from these transactions	Integrity risk-Reputation	No revenue or expense
	5. How the bank disposed, or intends to dispose, of such revenues	Integrity risk-Reputation	1.Reported 2.Not relevant

Table 34: Expected disclosures (Maali, Casson & Napier 2006) integrated with risk categories (ICAEW 1998) in the Auditor-General Certificate, Report and Replies (continued).

1998			
Area	Items to be disclosed	Risk disclosure category	Risk reported
Unlawful (*Haram*) transactions	1. Nature of unlawful transactions	Integrity risk-Illegal acts	1.Shortage of balance in Depositors' Provident Fund against balance in Depositors' Individual Accounts 2.Withholding *Zakat* funds
	2. Reasons for undertaking such transactions	Integrity risk-Reputation	1.Not reported 2.Not illegal to do so, to distribute the funds
	4. The amount of revenue or expenses from these transactions	Integrity risk-Reputation	Reported
	5. How the bank disposed, or intends to dispose, of such revenues	Integrity risk-Reputation	Not applicable

Table 35: Expected disclosures (Maali, Casson & Napier 2006) integrated with risk categories (ICAEW 1998) notes to the accounts

2001 to 2003			
Area	Items to be disclosed	Risk disclosure category	Risk reported
Quard Hassan	2. The amounts given to beneficiaries	Strategic risk-Business portfolio	Reported

Table 36: List of accounting risk disclosure - the Pilgrims Fund's Depositors' Provident Fund balances from 1995 to 2003

Year		1995	1996	1997	1998
Balance as at 1 January		2,268,674,785	3,113,453,120	4,272,127,451	5,700,654,104
Savings		1,278,223,392	1,764,375,706	2,147,278,359	2,954,271,352
Bonus		236,498,812	327,496,032	440,397,919	459,239,734
Withdrawals		669,943,869	933,197,407	1,159,149,625	2,361,082,590
Balance as at 31 December		3,113,453,120	4,272,127,451	5,700,654,104	6,753,082,600

Year	1999	2000	2001	2002	2003
Balance as at 1 January	6,753,082,600	7,986,658,485	9,534,040,065	10,565,770,000	10,270,404,000
Savings	3,439,214,469	4,593,522,898	5,431,784,781	4,108,009,000	4,787,459,000
Bonus	543,087,899	455,412,662	322,220,949	346,035,000	411,472,000
Withdrawals	2,748,726,483	3,501,553,980	4,722,275,160	4,749,410,000	4,182,694,000
Balance as at 31 December	7,986,658,485	9,534,040,065	10,565,770,635	10,270,404,000	11,286,641,000

Pilgrims Fund's Depositors Provident Fund balances from 1995 to 2003

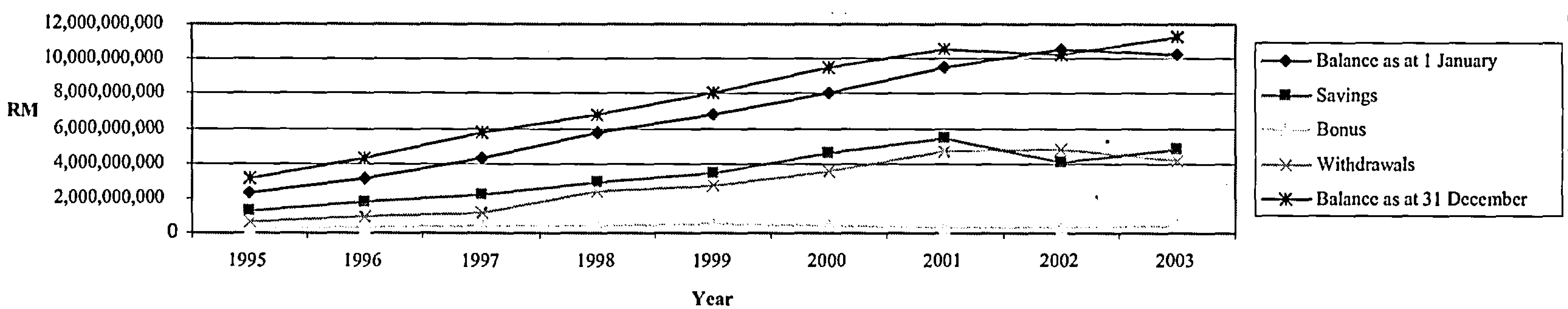
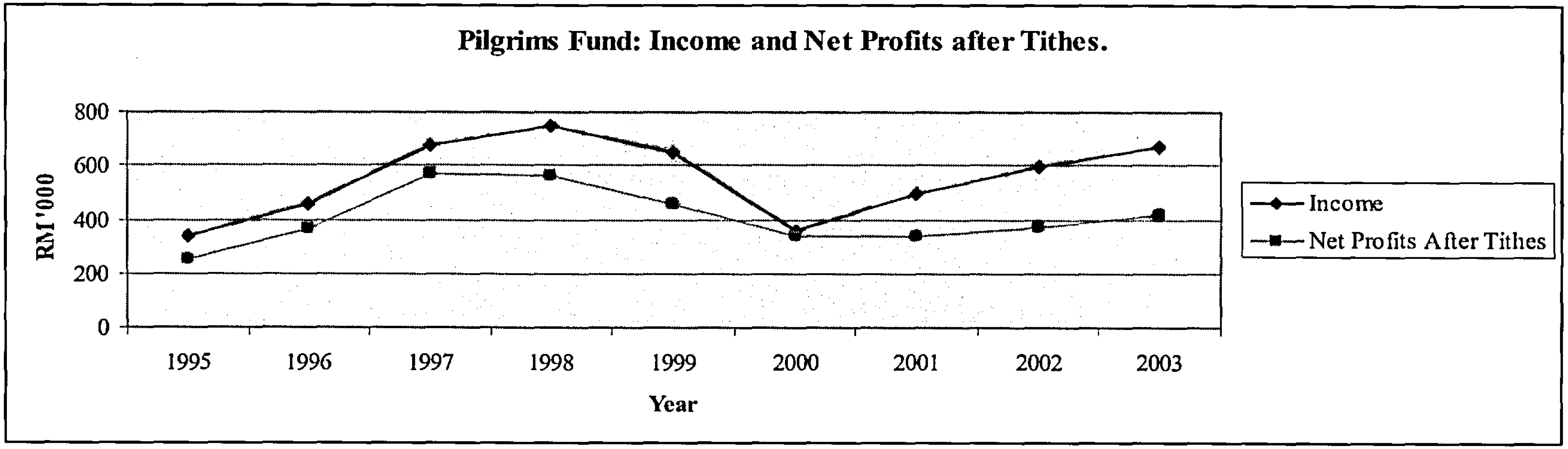


Table 37 shows the Pilgrims Fund's Income and Net Profits after *Zakat* for the same period as disclosed by the Pilgrims Fund in its Annual Financial Report and its graph. Source: Pilgrims Fund Annual Report (1996- 2003, not including 2000).

Table 37: List of accounting risk disclosure – the Pilgrims Fund's Income and Net Profits after *Zakat* for the period 1996 -2003

Year	1995	1996	1997	1998
Income (RM'000)	339	458	673	749
Net Profits After *Zakat* (RM'000)	252	363	569	561

Year	1999	2000	2001	2002	2003
Income (RM'000)	648	359	494	598	669
Net Profits After *Zakat* (RM'000)	459	338	336	368	414



and the questionnaires revealed a hierarchist rationality of the respondents. Therefore, the organisation does not have a rationality which is in alignment to the rule enforcer.

This research found that the Pilgrims Fund made voluntary disclosure of the different categories of risks as per Table 33. The Annual Financial Statements of the Pilgrims Fund have received clean audit reports, although it is apparent that the financial statements did not fulfil the reporting requirements of the stakeholders. It was found that the reporting itself hinders comparability between successive Annual Financial Statements, by using different terminologies and producing statements which are not uniform. It was also found that two categories of risks as per ICAEW 1998 was not reported at all, i.e. empowerment risks, for example, on items relating to leadership and management, outsourcing, performance incentives, change readiness and communications; and information technology and processing risks, for example, on integrity, access, availability and infrastructure. It seemed that the organisation was quite unwilling to disclose this information throughout the period of study, perhaps for fear of revealing any mismanagement on their behalf.

Although the interviews conducted and internet searches do show that there have been changes in leadership and outsourcing, i.e. use of consultancy services and performance incentives to employees; the interviews have given no reason for non-disclosure in the Annual Financial Statements. It is quite interesting to note that the organisation was apparently secretive about its empowerment and information processing and technology risks between the years 1996 and 2001 when the members' funds kept increasing at a steady rate. Early in the year 2003, in an effort to promote itself, after the members' funds decreased in 2002, the management has produced alternative reporting disclosing empowerment risk. This disclosure seemed able to influence the stakeholders since the members' funds for that year increased over the year 2002.

The above section discussed the findings on the Pilgrims Fund. The following section will discuss findings on the Armed Forces Fund.

CHAPTER 5 EMPIRICAL FINDINGS: THE ARMED FORCES FUND

This chapter follows the same format as in the previous chapter. It concentrates on the second case organisation, the Armed Forces Fund.

Introduction

The Armed Forces Fund was established in 1973 through the Armed Forces Fund Act 1973, with the objective of providing superannuation benefits to non-commissioned servicemen. The main intent is therefore economic-based, i.e. to improve the living standards of the servicemen. Subsidiary objectives include provision of housing benefits, i.e. to facilitate purchase of land to build a house or purchase of a completed house. The members of the Armed Forces Fund are required by law to contribute 10% of their monthly salary to the Fund and the Ministry of Defence as their employer contributes 15%. Similar to the Pilgrims Fund and several other statutory bodies, the Armed Forces Fund too assisted the government out of the crises years in 1997 and in 2001. The following section gives a more comprehensive picture of the Armed Forces Fund.

The organisation

In Malaysia the vast majority of employees are subject to two compulsory monthly salary deductions. These include compulsory payments to the Employee's Provident Fund[51] (EPF) for retirement benefits and the Social Security Organisation[52] (SocSO) for insurance. Exceptions to the EPF deductions are pensionable government employees and the exception to SocSO are government employees, domestic employees, self-employed persons and foreign workers. The government provides all

---

[51] http://www.mohr.gov.my/archived2003.htm#27 5/9/2006 EPF Chairman, Tan Sri Abdul Halim Ali said on December 2003 that EPF enjoys a healthy asset growth of RM20 billion a year.

[52] Social Security payments are made compulsory by the Social Security Act, 1969. http://www.perkeso.gov.my/english/introduction.html 4/9/2006. Employees include all persons employed under a contract of service or apprenticeship; starting work with a monthly salary of RM3,000 or less. Voluntary contributions can also be made by employees having a starting salary of more than RM3,000. SOCSO's motto is "once covered always covered". The amount of contribution by employee is made according to the 24 categories of rates specified in the Act. On top of this, the employee has to pay a rate of 0.5% of salary for coverage in the Invalidity Pension Scheme the employer has to pay 1.75% of salary for the Employment Injury Insurance Scheme and the Invalidity Pension Scheme. Contributions should start from the first month of employment. The minimum contribution by a member is 50 cents and the maximum is RM66.40 (for monthly salaries above RM2,900).

civil servants employed with medical benefits[53], housing benefits[54] and leave entitlement[55]. The government is contemplating to propose another deduction, the National Health Financing Scheme[56] (NHFS) for health costs which covers everyone. Exemptions are the civil servants, the disabled and the poor.

Besides the two main compulsory monthly deductions, the vast majority of employees could voluntarily opt to contribute to other funds for benefits[57]. Together, the money collected through both mandatory and voluntary deductions represents a considerable part of the economy. The Employees Provident Fund have even proposed to the government to disallow members from withdrawing their money as a lump sum upon reaching the age of 55 years but this was rejected by the government[58]. In the case of the Employees Provident Fund, deductions are 10% of salary from each employee and 15% on behalf of that employee by the employer.

However, even with this cautious planning by the government to provide for employees especially the civil servants, prior to the establishment of the Armed Forces Fund in 1973, the non-commissioned servicemen[59] have been exempted from contributing to any form of superannuation benefits. This meant that their welfare after retirement solely depended on their ability to seek opportunities of employment to ensure a continuous source of income. The government saw an opportunity to improve the economic status of the retired servicemen and formed the Armed Forces Fund in August 1972 through an Act of Parliament, the Armed Forces Fund Act 1973 also known as Act 101, to cater for the welfare of the retired personnel and to

---

[53]Civil servants are only required to pay RM1 for each visit to a government hospital, including all medications.

[54] http://www.eghrmis.gov.my/wp_content2/polisihr/perintah/BabE/babE.htm 5/9/2006. Translated from General Orders, Chapter E, Number 3. Civil servants are sometimes provided with accommodation at or near to their place of work for the benefit of the service.

[55]http://www.gov.my/MyGov/BI/Directory/Citizen/CitizenEmployment/EmployeeBenefitsContributions/ 5/9/2006

[56] http://malaysianmedicine.blogspot.com/2005/12/health-plan-to-be-modelled-after-socso.html 4/9/2006

[57] The voluntary contribution includes employee cooperative schemes where employees could borrow money at interest rates lower than the market rate and buy electric appliances by easy payments. It also includes other deductions authorized by the employee such as for buying unit trusts and for performing the pilgrimage.

[58] "Government "no" to EPF", The Star, 18/12/2003 http://www.mohr.gov.my/archived2003.htm#27 5/9/2006.

[59] The non commissioned officers include the Warrant Officer down to the Private. The commissioned officers, ranking from lieutenant upwards contribute to the EPF.

enable all personnel to participate in a savings scheme. Armed Forces Fund is therefore similar to the Employees Provident Fund in the sense that it provides for retirement benefits.

Armed Forces Fund regulation

There are two main objectives as per the Armed Forces Fund Act 1973, firstly to provide retirement and other benefits to non-commissioned servicemen of the Armed Forces (compulsory contributors) as well as to enable officers and mobilised members of the volunteer forces in the service to participate in a savings scheme and secondly, to promote socio-economic development and to provide welfare and other benefits such as to offer retraining for the retiring and retired personnel of the Armed Forces of Malaysia[60]. This is due to the fact that the non-commissioned servicemen have a choice of ten years service, after which they could renew their service contract up to fifteen, eighteen, twenty-one or twenty-five years. Normally, a non-commissioned serviceman who joins the force at eighteen will have the option to retire when he is twenty-eight, thirty-three, thirty-six, thirty-nine or forty-three. At this age, they may still have a number of growing children or teenagers and therefore may face difficulties without proper retirement benefits.

In the 1970s when Malaysia was still facing communist threats, the government was afraid that the economic deprivation of the ex-servicemen would entice them to join the communists. Therefore, the Armed Forces Fund was set up to cater for the economic benefits of the retiring servicemen. In terms of values, based on the objectives, it is safe to say that the Armed Forces Fund has an economic-based value. This is quite significant considering the fact that the contributors to the Armed Forces Fund are mostly also contributing to the Pilgrims Fund and they assume different values in the two arenas. It is apparent that in the Pilgrims Fund which proposes religious values, the contributors were holding the organisation as per the proclaimed values whilst in the Armed Forces Fund, they are assuming the role of a hierarchist, i.e. the management knows what they are doing, and the contributors can

[60] www.ltat.org.my 17/09/07.

be rest assured that their monies are invested by the organisation in religious and at the same time profitable ventures.

In terms of the incorporating Act, similar to other statutory bodies, the Armed Forces Fund is bound by its incorporating Act and all other rules and regulations imposed on statutory bodies, as is the Pilgrims Fund. However, in contrast to the Pilgrims Fund, the Armed Forces Fund Act 1973, has not gone through any major changes. The only changes are those applicable to all statutory bodies, i.e. the implementation of the Malaysian Accounting Standards Board's reporting regulations on the Annual Financial Statements effective from the year 2000 and the implementation of Treasury Circular No. 4 of 2007 on the Guidelines for the preparation and presentation of Annual Report and financial statements of Federal statutory bodies.

Governance: Stability of management: Background and tenure

The Armed Forces Fund is under the supervision of the Minister of Defence. Table 38 shows the Minister of Defence during the period 1995-2007.

Table 38: Ministers-in-charge of the Armed Forces Fund 1996-2007[61]

Year	Minister
May 1995-98	Syed Hamid Syed Jaafar Albar
1999	Abang Abu Bakar Abang Mustapha
1999-2007	Mohd Najib Abdul Razak

The present Minister of Defence was the Minister of Defence for the period between 1990 and 1995 and is also the Deputy Prime Minister. Abang Abu Bakar was the Deputy Defence Minister since 1982. A significant point to note is that, compared to the Pilgrims Fund, there is a long association between the two Ministers, Abang Abu Bakar Abang Mustapha and Mohd Najib Abdul Razak, to the Ministry of Defence.

[61] http://www.parlimen.gov.my/hindex/pdf/DR-04-11-1996.pdf p 3
http://www.parlimen.gov.my/hindex/pdf/DR-17-12-1997.pdf p3-4
http://www.parlimen.gov.my/hindex/pdf/DR-10-12-1998.pdf p3-4
http://www.parlimen.gov.my/hindex/pdf/DR-09-11-1999.pdf p128-9
http://www.parlimen.gov.my/hindex/pdf/DR-15-02-2000.pdf p144-5
http://www.parlimen.gov.my/hindex/pdf/DR-11-12-2001.pdf p 2
http://www.parlimen.gov.my/hindex/pdf/DR12112002.pdf p i-ii
http://www.parlimen.gov.my/hindex/pdf/DR21102003.pdf p i-ii 12/9/2006
http://www.pmo.gov.my/website/tpmwebdb.nsf/pengalamanx?OpenForm
http://www.mod.gov.my/organisasi/versi_eng/menteri_pertahanan_eng.html

The Chairman and Chief Executive Officer for the Armed Forces Fund for the period 1996 to 2007 were Mohd Ghazali Che Mat and Lodin Wok Kamaruddin. The Chairman was normally selected from ex-Chief of the Armed Forces. As per the Annual Report, during 2003, the Chairman of the Armed Forces Fund Board, was also the Chairman for several companies listed on the Malaysia Stock Exchange, namely, Boustead Holdings Berhad, Boustead Plantations Berhad, UAC Berhad and the New Straits Times Press (M) Berhad. The Chairman was known to incorporate best practice from the private sector into the Armed Forces Fund[62]. On 23 February 2007 the new Chairman, Mohd Anwar Mohd Nor, was appointed to replace Mohd Ghazali Che Mat on his retirement.

In terms of the management style, in the Armed Forces Fund, the management style was very proactive with the Chief Executive Officer chairing every weekly meeting and leading by example. There were proper responsibility centres in place to tackle risk management and the organisation was conducted in a business approach. Relations with the Ministry of Defence in terms of record keeping were kept in the utmost interest. The management ensures proper documentation provides details of the courses of action for employees.

Growth and development

As at end of 2003 total assets stands at RM4.59 billion compared to RM4.19 billion in 1996 and Net Profit for 2003 is RM397.87 million[63] compared to RM715.18 million in 1996 due to the economic uncertainties within the period, and the reduction in income from the Armed Forces Fund companies, cumulative redeemable preference shares and securities held for trading.

The Armed Forces Fund competed for the Prime Minister Public Services award in 1997[64]. In 2003 it received the Certificate of Approval MS ISO 9001:2000 from Lloyd's Register of Shipping (M) Bhd for the management of its members' contribution accounts.

[62] Information from interview with the Strategic Planning and Quality Implementation Manager.
[63] Armed Forces Fund Annual Report 2003 and 1996.
[64] http://www.mampu.gov.my/pdf/fail%20anugerah/akpa.pdf 30/10/2006.

Membership

This section contains a more detailed explanation regarding membership to the Armed Forces Fund. Members are servicing non-commissioned servicemen, ranking from Warrant Officers to Privates, in the Armed Forces. They are required to contribute 10% of their monthly salary whilst the government as employer should contribute 15%[65] of the same amount towards the Armed Forces Fund. Commissioned servicemen can participate voluntarily and the amount of contribution varies from a minimum of RM25 to a maximum of RM500 monthly.

The terms of employment of the non-commissioned servicemen are such that they are employed on a contract basis. The contract is renewable after the first ten years, then at the thirteenth, fifteenth, eighteenth, twenty-first years up to a maximum of twenty-five years of service. On termination of contract, the employees will receive payment from the Armed Forces Fund consisting of their 10% deduction and the government's contribution of 15% in a lump sum including cumulative yearly dividends and bonuses. Payments are also made when the contributors pass away, retire or are discharged from service, or attain the age of 50.

This lump sum may include members' and government contributions and the cumulative yearly dividends and bonuses for the non-pensionable compulsory contributor. The compulsory contributors who are pensionable will be paid in lump sum their portions of contribution together with the cumulative yearly dividends and bonuses. The government portion will be refunded to the Consolidated Pension Fund for payment as monthly pension. The compulsory contributors may withdraw at any time and will be allowed to be a contributor again thereafter.

On the other hand, a voluntary contributor can withdraw his savings at any time but once they have withdrawn, they are not eligible to be contributors again. All members receive a special bonus in terms of free unit trusts based on the financial performance of the year. There is also a death and disablement benefits scheme which covers members with an amount on discharge of service due to infirmity of mind or body, or to the next of kin on death whilst in service. When purchasing their

[65] http://www.ltat.org.my/bmfaq.html#2 (in Malay)

first house, or land for building a house, contributors can withdraw a maximum of 40% of their contribution or 10% of the cost of a house or RM10,000, whichever is lower.

Risk perception within the Armed Forces Fund

Amongst the objectives of the Armed Forces Fund is to receive deposits from members which would later be paid as superannuation benefits to the same members on their retirement. Accordingly, the risk rationality of the organisation is hierarchist i.e. in service of the Armed Forces, thus as per Douglas[66], the organisation is a hierarchist/positional organisation.

Hierarchists are also known as bureaucrats. They rely on rules and procedures to cope with uncertainty. As long as risks are managed by a capable institution and coping strategies have been provided for all eventualities, there is no need to worry about risks. They believe in the effectiveness of organizational skills and practices and regard a problem as solved when a procedure to deal with its institutional management is in place. They inhabit a world with strong group boundaries and binding prescriptions. Social relationships in this world are hierarchical, with everyone knowing his or her place. Members of caste-bound Hindu society, soldiers of all ranks, and civil servants, are exemplars of this category. This rationality presumes an agreement about objectives, what the economists call an "objective function". They inhabit a singular hierarchy and any hierarchist's attempt to formulate a rationale for action, can only work if there are common values and agreement about the hierarchy's objectives. The method encounters insurmountable problems when attempts are made to use it to resolve disputes involving more than one hierarchy and/or other cultural biases.

Otherwise known as positional, the hierarchist culture is a strong group, strong regulation culture. All roles are predetermined, all behaviour subject to 'positional' rules indicated by heredity, or gender, or age and their combinations. Little groups may be incorporated into larger groups similarly organised. There may be several levels of groups in a large hierarchy. Positional culture favours tradition and

[66] www.chass.utoronto.ca/epc/srb/cyber/douglas1.pdf, p4, not dated.

continuity, frown on competition except with outsiders, must encourage respect, loyalty, obedience and the well-being of the community. It is a culture that subordinates the good of the individual to that of the whole and is extremely efficient for coordination with its coherent structure of subordination and command. Decision-making roles are clearly located at the top, support is readily mustered.

The procedural rationality is that there is 'A place for everything...' Hierarchies are made up of bounded social groups, each of which is in an orderly and ranked relationship with each other. Their attempts to coordinate these components, without violating status differentials, creates a procedural rationality that is more concerned with the proprieties of who does what than with trying to evaluate the outcome (if there is one). Risks are acceptable as long as institutions have the routines to control them (Douglas 2005; Adams 1995; Renn 1992b and Schwarz & Thompson 1990). This answers the first research question in the first research objective, the Armed Forces Fund belong to the hierarchist rationality as per their incorporation objective. The findings from the interviews and the questionnaires below showed that this also applies to the respondents within the organisation.

Risk perception from interviews

Table 39 shows the risk perception of the Armed Forces Fund interviewees as per Thompson, Ellis and Wildavsky (1990).

Table 39: Risk perception of the Armed Forces Fund interviewees

Position	Risk perception
Strategic Planning and Quality Implementation Manager – relies on rules and procedures, and strategies have been provided for all eventualities.	Hierarchist
Processing and Information Technology Manager - believe in the effectiveness of organisational skills and practices and regard a problem as solved when a procedure to deal with its institutional management is in place.	Hierarchist
Senior Internal Auditor - believe in the effectiveness of organisational skills and practices and regard a problem as solved when a procedure to deal with its institutional management is in place.	Hierarchist
Risk Manager - as long as risks are managed by a capable institution and coping strategies have been provided for all eventualities, there is no need to worry about risks	Hierarchist

The three ex-servicemen interviewed were not included in Table 39 because, being ex-servicemen, they do not belong within the organisation (i.e. they are stakeholders) and their risk perception did not represent the risk perception of the people within the organisation[67].

Referring to Table 39, the researcher made the categorisation based on the answers given during the interview. All four interviewees showed typical hierarchist behaviour as per Thompson, Ellis and Wildavsky (1990), i.e. each of them knew their responsibility and what they should do. They are responsible for their subordinates, ensuring each employee the right to a choice of training for a predetermined number of hours per year. A significant point to note is that unlike the managers in the Pilgrims Fund who are mostly employed from amongst fresh graduates and has been in the organisation for some time, the management of the Armed Forces Fund has had previous relevant work experiences relating to their current positions in the Armed Forces Fund. For example, the Risk Manager (personal communication) was formerly a consultant from a top accounting firm with previous experience as an accountant, as an internal and later as an external auditor who advised the company on risk management procedures. She was later offered the position of Risk Manager within the organisation.

The researcher interviewed the Strategic Planning and Quality Implementation Manager in a session together with the Processing and Information Technology Manager. Both of them demonstrated their understanding of their job. The researcher was told that the organisation held weekly management meetings each Monday chaired by the Chairman himself. As an internal security measure, no mobile phones were allowed in these meetings, for fear of information leakage by spy mobiles. They stressed that the Chairman was the motivating factor in the organisation, and they, as the departmental managers have direct communication channels to the Chairman. They stressed that each individual in the organisation has a responsibility and this responsibility was informed to them when they were first employed in the organisation. Every problem was discussed in meetings with

[67] The findings from the interviews on the ex-servicemen form the basis for Table 41: Conflicting perceptions in the members-organisations debate (Armed Forces Fund).

departmental managers present and should there be any need for further discussions, the Chairman would call for a meeting any time between the management meetings. Both showed that the organisation is close-knit community.

The Senior Internal Auditor (personal communication) had vast auditing experience prior to her engagement in the organisation. She gave an explanation of the risk management procedures within the organisation which consists of defining the process, identifying the risks, determining and being aware of the causes, manage the criteria and establishing a risk rating. She gave visual representations of the internal auditing procedures within the organisation and showed the researcher the internal memo that was distributed to all employees, and initialled by each employee as proof that they have read and received a copy of the memo. She stated that an annual review is conducted to make sure that everyone is aware of the existing positive controls and of any additional controls that they could contribute.

The Risk Manager (personal communication) showed the researcher a quick reference guide to risk assessment, a document distributed to employees during a risk assessment workshop providing a specific idea of the business risk assessment process, a likelihood table showing the possibility of risk occurrence within the year, the risk rating, the assessment of risk control effectiveness and the potential risk areas for an investment holding company. It is the degree of willingness of the four managers to show the researcher as a person external to the organisation their understanding of their work and the extent to which they took care of the welfare of their employees and the contributors to the fund that maps their behaviour to that of the hierarchists.

The above section discussed the risk perception of the interviewees whilst the next section will discuss the internal risk communication from interviews.

Internal risk communication from interviews

This section gives a detailed discussion of the risk communication from the interviews conducted. The Risk Manager and the Strategic Planning and Quality

Implementation Manager[68] (personal communication) stated that, in addition to the series of two risk assessment workshops periodically held by the Armed Forces Fund, weekly management meeting are held each Monday, which would mostly be chaired by the Chairman, but during the few times when he was not available, by his deputy. Each employee who attends the risk assessment workshop will be given a quick reference guide which give details of the risk assessment process that will be used to provide a structured approach to identifying, prioritising and managing risks. The following is an outline of the business risk assessment process adopted:

1. Define Processes/Activities/Objectives.
2. Determine Financial Loss Basis.
3. Identify Risks.
4. Determine Cause.
5. Determine Consequence i.e. Insignificant, Minor, Moderate, Major, Catastrophic.
6. Determine Likelihood i.e. Rare, Unlikely, Moderate, Likely, Almost Certain.
7. Determine Risk Rating i.e. Low, Moderate, Significant, High.
8. Identify Controls i.e. Positive, Negative.
9. Determine Control Effectiveness i.e. Weak, Some Weaknesses, Satisfactory.
10. Challenge/Revise Ratings.
11. Determine Current Residual Risk i.e. Low, Moderate, Significant, High.
12. Risk Profile – then Develop Audit Plan, Risk Treatment: Terminate (T), Reduce (R), Accept (A), Pass-on (P) = (TRAP). (Is Residual Risk Profile Acceptable?)

The workshops explain what is meant by 'Likelihood' in (6) above, for example, for 'Rare' the risk description is 'Event may occur only in exceptional circumstances,' e.g. approximately below 5% chance of occurring in the next 12 months. The Risk Manager showed the documentation on risk rating according to the magnitude of impact, i.e. Insignificant, Minor, Moderate, Major, Catastrophic; against likelihood, i.e. Rare, Unlikely, Moderate, Likely, Almost Certain. The decision rule for assessment of risk control effectiveness into either 'Satisfactory (Decision rule:

[68] Personal communication and documentation shown, July 2005

Controls are strong and operating properly, providing a reasonable assurance that the objectives are being achieved); 'Some weaknesses' (Decision rule: Some control weaknesses/inefficiencies have been identified.

Although these are not considered to present a serious risk exposure, improvements are required to provide reasonable assurance that objectives will be achieved)' or 'Weak' (Decision Rule: Controls do not meet an acceptable standard, as many weaknesses/inefficiencies exist. Controls do not provide reasonable assurance that objectives will be achieved) is also shown to the researcher. The risk department has categorised risks according to Governance, Integrity, Compliance, Reputation, Operational, Finance, Environment, Management Information, Technology, Preparedness and Human Resources. Some of the categorisation follow the ICAEW (1998) risk categories and add in more factors. For example, the 'Integrity' risk category is divided into management fraud, employee fraud, illegal acts and unauthorised use. The risk department has defined potential risk areas for an investment holding in a way which is very similar to ICAEW (1998), i.e. categorised into Strategic risks, Human resource risks, Legal/regulatory risks, Financial risks and Information Technology related risks and other risks.

Besides the risk assessment workshop, if there was any pertinent matter that needs discussion, ad-hoc meetings will be held in the week to discuss on issues. Every member of management has the Chairman's consent to contact him regarding any work-related problem. Other modes of communication include using the telephone and an internal memo system which needs to be signed by everyone concerned certifying that they have received a copy of the memo. The certification was proof of communication.

In terms of the application of internal control rules and procedures, it can be seen that inter-departmental meetings were held weekly within the organisation. These were supplemented with intermediate meetings as and when the need arises and was almost always chaired by the Chairman himself. In the few occasions where he was not present, he suggested his deputy to chair the meeting. The high attendance of the Chairman to each meeting could be interpreted to be his commitment to be involved in the day-to-day running of the organisation and this commitment kept the managers aware of their responsibilities. This was a case of management by example. Based on these findings, it seems that the Armed Forces Fund practiced a good system of internal communication. Table 40 shows the perceptions of the employees in the employees-organisation debate[69].

Table 40: Perceptions in the employees-organisation debate within the Armed Forces Fund

Employees' analysis	Organisational analysis (Armed Forces Fund)
Political consequences	
• Government and organisation serve the objectives of the organisation as per the incorporating Act. • The management represents a concentration of political power and an omnipotent bureaucracy (hierarchist-individualist) for the good of the contributors.	• Government and organisation only serve to implement agreed-upon political objectives. • Government acts in the public interest. Bureaucracy is necessary for efficiency.
Economic and social consequences	
• Calculated investments should generate higher returns for the contributors. • Investment of funds in stock exchange for higher profits.	• Higher profits could satisfy contributors' needs. • Investment of funds is necessary for growth and national development.
Role of government	
• Government should act in the best interests of the contributors. • Government should protect members' resources against economic crises.	• Government should defend public interest against special interests. • Government should ensure members' resources generate returns on investments.

(Adapted from Nelkin & Pollak 1982, as cited in Schwarz & Thompson 1990, p. 35).

The above table shows a more congruent perception between the employees and the organisation where the motivation seems to be the economic well-being of the contributors. The next section will discuss the risk perception from questionnaires.

Risk perception from questionnaires

The answers to the questionnaire on the attitudes towards risks of individuals in the Armed Forces Fund as per the identification of rationalities to each question –

[69] Information based on main themes from the interviews.

strongly agree, and the identification of rationalities to each question – strongly disagree were analysed based on the percentage responses for each question for agree and disagree questions only. It was found that the Armed Forces Fund respondents strongly agreed to 79% of the questions that hierarchists would strongly agree to. They also strongly agreed to only 33% of the questions that individualists would strongly agree to and to 25% of the questions that egalitarians would strongly agree to. They do not strongly agree to the question that fatalists would agree to.

From the questionnaire findings, the respondents from the Armed Forces Fund can be classified mainly as hierarchists. Therefore, the answer to the second research question in the first research aim is that people within the Armed Forces Fund mainly had hierarchist rationality. Referring back to the first hypothesis, if the risk rationality of the organisation and the individuals within it is similar, the organisation should work well together. It is apparent that the risk rationality of the organisation in this case was hierarchist and the risk rationality of the individuals within it is mainly hierarchist, therefore, for the Armed Forces Fund, hypothesis one supposes that the organisation should work well together.

Armed Forces Fund: Values and culture

Being part of the very well disciplined Ministry of Defence, the organisation is very hierarchical with everyone knowing his or her place in the organisation. The attitude is that the top management is always correct. Historically, the experience is a 'no questions asked' mentality, i.e., to always obey instructions.

In the Armed Forces Fund, the risk committee reports direct to the Chairman. It is apparent that there is a very high internal visibility, but low public profile on risk in this organisation. Management attitude to risk is pro-active and the risk committee was established on initiatives by Chairman before required to do so by the Government.

Table 41 shows some of the main features that characterise conflicting perceptions between members and the Armed Forces Fund.

Table 41: Conflicting perceptions in the members-organisations debate (Armed Forces Fund)

Members' analysis	Organisational analysis (Armed Forces Fund)
Political consequences	
• Government and organisation agree to provide the best for members.	• Government and organisation only serve to implement agreed-upon political objectives.
• The Minister and the board represent a unified and efficient bureaucracy effort.	• Government acts in the public interest. Bureaucracy is necessary for efficiency.
Economic and social consequences	
• The organisation seeks the best returns on members' investments.	• Listing of subsidiary on the stock exchange will reap better economic benefits.
• Investment panel ensures investments of funds are profitable.	• Investment of funds is necessary for growth and national development.
Role of government	
• Government is necessary to maintain order.	• Government should defend members' interests.
• Government will protect members' investments.	• Government should ensure members' resources generate returns on investments.
Role of investment experts	
• Investments could bgenerate high returns and at the same time high losses.	• Investments are always researched.
• The problem is one of trusting the investment panel, thus extending the acceptability of risk.	• Proactive rather than reactive, investment panel discussions are to evaluate risk acceptability.

(Adapted from Nelkin & Pollak 1982, as cited in Schwarz & Thompson 1990, p. 35).

Risk reporting: Armed Forces Fund Annual Financial Statements (1996-2003)

Table 42 shows the items generally disclosed as part of the Annual Financial Statements.

All the statements prepared by the Armed Forces Fund were similar to that prepared by the Pilgrims Fund, but the way the information was presented was different due to the audit report appearing as the last item in the Armed Forces Fund as opposed to it being the first in the Pilgrims Fund.

Table 42: Risk items disclosed in the Armed Forces Fund Annual Financial Statements

Balance Sheet 1996, 97, 98, 99, 2000, 01, 02, 03.
Profit and Loss Account 1996, 97, 98, 99, 2000, 01, 02, 03.
Profit and Loss Appropriation Account 1996, 97, 98, 99, 03.
Members' Contribution Account 1996, 97, 98, 99. Statement of Changes in Equity 2000, 01, 02, 03. (Replacing Members' Contribution Account).
Cash Flow Statement 1996, 97, 98, 99, 2000, 01, 02, 03.
Notes to the Accounts 1996, 97, 98, 99, 2000, 01, 02, 03.
Statement by the Chairman and a Member of the board of directors 1996, 97, 98, 99, 2000, 01, 02, 03.
Statutory Declaration by the Senior Officer in Charge of Pilgrims Fund's Financial Management 1996, 97, 98, 99, 2000, 01, 02, 03.
Auditor-General's Certificate 1996, 97, 98, 99, 2000, 01, 02, 03.
Auditor-General's Report 2000.

A list of the accounting risk disclosures made in the Annual Financial Statements is shown in the respective tables below: the Profit and Loss Account (Table 43), the Profit and Loss Appropriation Account (Table 44), the Balance Sheet (Table 45), the Members' Contribution Account (Table 46) and the Statement of Changes in Equity (Table 47). The list of accounting risk disclosure in the Cash Flow Statement and the Notes to the Accounts for the period of study were not shown due to their length but are available on request. The numbers in brackets show the years in which the Annual Financial Statements contained the corresponding information. Asterisks denote that there is more detailed information regarding the respective items in the Notes to the Accounts.

1. Significant risk points to be noted on the Annual Financial Statements

As per the first research question of the second research objective, i.e. What are the rules and regulations on the Annual Financial Statements of the organisations?; similar to the Pilgrims Fund, these are as per Table 20 and with effect from the Annual Report for 2000, include rules as per Table 21.

As per the second research question of the second research objective, i.e. Who imposed them?; rules in Table 20 are imposed by the Treasury whilst those in Table 21 are imposed by the Malaysian Accounting Standards Board.

As per the third research question, i.e. Is there any specification on risk reporting in the rules and regulations?; as far as Armed Forces Fund was concerned, there was none.

As per the fourth research question, i.e. Is there any disclosure by the organisations of voluntary compliance to any other reporting rules and regulations?; with respect to the Armed Forces Fund, the answer is no.

In accordance with the fifth research question in the second research objective, What information is given in the regulated Annual Financial Statements?; Table 42 shows the risk items comprising the Annual Financial Statements and the years in which they are disclosed. The numbers in brackets show the years in which the Annual Financial Statements contained the corresponding information. Asterisks denote that there is more detailed information regarding the respective items in the Notes to the Accounts. It was found that throughout the period 1996 to 2003, the statement of affairs consisted of the Chairman's Statement and the Corporate Information.

As per the sixth research question, Is there any risk reporting in the Annual Report and if there is, in which section is this done?; the answer is a definite yes, and it is done in both the statement of affairs and the Annual Financial Statements sections of the Annual Report.

As per the seventh research question, What categories of risks have been disclosed?; this is shown in Table 48, the summary of risk disclosure categories for the Armed Forces Fund.

The following section shows tables detailing the accounting risk disclosure in the Armed Forces Fund financial statements. A brief comment follows each table. There are two significant risk points in the profit and loss statement, the first being usage of different terms between 2000 and 2001 and the second being the increase in disclosure of cost information post 1999. These two points is apparently due to the new reporting regulations which came into force effective on the Annual Financial Statement for the year 2000.

Armed Forces Fund: Profit and Loss Account (1996-2003)

Table 43: List of accounting risk disclosure – the Armed Forces Fund's Profit and Loss Account

Turnover (1996*, 97*, 98*, 99*) Revenue (2000*, 01*, 02*, 03*)
Other operating income (2000*) Other revenue (2001*, 02*, 03*)
Interest expense - banking institution (2000, 01, 02, 03)
Loans and financing loss and provision (2000*) Provisions and losses on loans, financing and investment (2001*, 02*, 03*)
Changes in inventories of finished goods and work in progress (2000, 01, 02, 03)
Finished goods and work in progress purchases (2000, 01, 02, 03)
Raw materials and consumables used (2000, 01, 02, 03)
Staff costs (2000, 01, 02, 03)
Depreciation and amortisation expenses (2000, 01, 02, 03)
Other operating costs (2000) Other operating expenses (2001, 02, 03)
Impairment of goodwill (2001)
Profit/(loss) from operations (2000, 01, 02, 03)
Finance cost (2000, 01, 02, 03)
Share of profit/(losses) of associated companies (1996, 97, 98, 99, 2000, 01, 02, 03)
Profit before taxation (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Taxation and *zakat* (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Profit after taxation and *zakat* (1996, 97, 98, 99, 2000, 01, 02, 03)
Minority interest (1996, 97, 98, 99, 2000, 01, 02, 03)
Profit for the year after taxation and minority interests (1996, 97, 98, 99)
Extraordinary items (1996*, 97*, 98*)
Profit for the year after taxation and extraordinary items (1996, 97, 98) Net profit for the year (2000, 01, 02, 03)

Armed Forces Fund: Profit and Loss Appropriation Account (1996-2003)

Table 44: List of accounting risk disclosure – the Armed Forces Fund's Profit and Loss Appropriation Account

Profit for the year after taxation and minority interest or extraordinary items (1996, 97, 98, 99)
Less appropriations: (1996, 97, 98, 99)
Dividends on members' contribution account (1996, 97, 98, 99)
Transfer to general reserves (1996*, 97*, 98*, 99*)
Transfer to statutory reserves (1996*, 97*, 98*, 99*)
Transfer to capital reserves (1996, 97)
Bonus on members' contribution account (1996, 97, 98, 99)
Transfer to entrepreneur development loans scheme fund (1998*)
Transfer to staff loans fund (1998*, 99*)
Transfer to fixed assets development fund (1998*, 99*)
Balance as at 1 January (1996, 97, 98, 99)
Payment to death and disablement benefits scheme (1996, 97, 98, 99)
Payment to PERHEBAT (1996, 97, 98, 99)
Special bonus in the form of unit trusts (1997, 98)
Dilution arising from additional shares issued in subsidiary company (1996, 97, 98, 99)
Dilution arising from additional shares issued in associated company (1999)
Reserves realised on sale/transfer of associated company (1996, 97, 98, 99)
Reserves realised on partial disposal of a subsidiary company (1996, 97, 98, 99)
Revaluation reserve realised (1996, 97, 98, 99)
Transfer of associated companies' capital reserves (1999)
Reserve used for bonus issue (1998, 99)
Change in the group structure (1998, 99)
Amortisation of Fixed Assets Development Fund (1998, 99)
Transfer from minority interests – prior year amortisation of goodwill on consolidation (1999)
Balance at 31 December (1996, 97, 98, 99)
Retained in: (1996, 97, 98, 99)
The Armed Forces Fund (1996, 97, 99)
Subsidiary companies (1996, 97, 98, 99)
Associated companies (1996, 97, 98, 99)

The Profit and Loss Appropriation was only prepared prior to 2000. There is no mandatory requirement to produce it after 1999. A significant point to note is that there seems to be more income categories in 1999 compared to previous years.

Armed Forces Fund: Balance Sheet (1996-2003)

Table 45: List of accounting risk disclosure – the Armed Forces Fund's Balance Sheet

Fixed assets (1996*, 97*, 98*, 99*) Assets: (2000, 01, 02, 03)
Property, Plant and Equipment (2000*, 01*, 02*, 03*)
Investments (1996*, 97*, 98*, 99*)
Investment properties (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Land held for development (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Subsidiary companies (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Associated companies (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Other investments (2000*, 01*, 02*, 03*)
Deferred tax assets (2003*)
Goodwill on consolidation (1996*, 97*, 98*, 99*, 2000*, 01*, 02*)
Other intangible assets (1998*, 99*, 2000*, 01*, 02*)
Current assets:
Stock (1996*, 97*, 98*, 99*) Inventories (2000*, 01*, 02*, 03*)
Property development in progress (1998*, 99*, 2000*, 01*, 02*, 03*)
Trade debtors (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Amounts due from subsidiary companies (1999*, 2000*, 01*, 02*, 03*)
Amounts due from associated/related companies (1998, 1999, 2000, 01*, 02*, 03*
Loans and advances (1996*, 97*, 98*, 99*) Loans, advances and financing (2000*, 01*, 02*, 03*)
Other debtors and prepayments (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Marketable securities (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Short term investments (2002*, 01*, 03*)
Securities purchased under repurchase agreements (1999, 2000, 01, 02)
Fixed and other deposits (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Cash and bank balances (1996, 97, 98, 99, 2000*, 01*, 02*, 03*)
Less Current liabilities
Trade creditors (1996, 97, 98, 99, 2000, 01, 02, 03)
Amounts due to subsidiary companies (1999*, 2000*, 01*, 02*, 03*)
Amounts due to associated/related companies (1998, 99, 2000*, 01*, 02*, 03*)
Deposits (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Obligation on securities sold under repurchase agreements (1998, 99, 2000, 01, 02, 03)
Bills and acceptances payables (1998, 99, 2000, 01, 02, 03)
Term loans (1996*, 97*, 98*, 99*) Short term loans (2000*, 01*, 02*, 03*)
Other bank loans (1998*, 99*, 2000*, 01*, 02*, 03*)
Taxation and *zakat* (1996, 97, 98, 99, 2000, 01, 02, 03*)
Bank overdrafts (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Other creditors (1996, 97, 98, 99, 2000, 01, 02, 03)
Unit trust benefits (2000*, 01*)

Table 45: List of accounting risk disclosures – The Armed Forces Fund's Balance Sheet (continued)

Net current assets/(liabilities) (1996, 97, 98, 99, 2000, 01, 02, 03)
Financed by:
Members' contribution account (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Reserves*:
General reserves (1996*, 97*, 98*, 99*, 2000, 01, 02, 03)
Capital reserves (1996*, 97*, 98*, 99*, 2000, 01, 02, 03)
Statutory reserves (1996*, 97*, 98*, 99*, 2000, 01, 02, 03*)
Reserve on consolidation (1996*, 97*, 98*, 99*, 2000, 01, 02, 03*)
Loan fund (1997)
Profit and loss appropriation account (1996*, 97*)
Armed Forces Fund*
Profit and loss appropriation account (1998*, 99*)
Entrepreneur development loans scheme fund (1998*, 99*, 2000, 01, 02, 03)
Staff loans fund (1998*, 99*, 2000, 01, 02, 03)
Fixed Assets Development Fund (1998*, 99*, 2000, 01, 02, 03)
Accumulated profits (2000*, 01*, 02*, 03*)
Minority interests (1996, 97, 98, 99, 2000, 01, 02, 03)
Deferred and long term liabilities
Term loans (1996*, 97*, 98*, 99*) Long term loans (2000*, 01*, 02*, 03*)
Deferred taxation (1996*, 97*, 98*, 99*, 2000*, 01*, 02*, 03*)
Retirement benefits (1996*, 97*, 98*, 99*, 2000, 01, 02, 03)
Deferred income (1996*, 97*)
Total deferred and long term liabilities (2000, 01, 02, 03)

There is one significant point to note, i.e. there was usage of a new set of terms post 2000. This was due to the new reporting regulation. Besides that, the balance sheet was well presented and it facilitated comparison of performance with previous years. Table 46 shows a list of the accounting disclosures in the members' contribution account.

Armed Forces Fund: Members' Contribution Account (1996-99)

Table 46: List of accounting risk disclosure – the Armed Forces Fund's Members' Contribution Account

Balance at 1 January (1996, 97, 98, 99)
Adjustments to members' contributions and dividends (1996*, 97*, 98*, 99*)
Contributions received during the year (1996, 97, 98, 99)
Dividends at 7% and at 7% for withdrawals (1996, 97, 98, 99)
Bonus credited at a percentage (1996, 97, 98, 99)
Withdrawals during the year (1996, 97, 98, 99)
Housing withdrawals during the year (1996, 97, 98, 99)
Balance at 31 December (1996, 97, 98, 99)

The members' contribution account, similar to the Profit and Loss Appropriation account was no longer mandatory post 1999, and therefore was no longer prepared, but the information therein is incorporated into the Statement of Changes in Equity (Beginning 2000).

Armed Forces Fund: Statement of Changes in Equity (2000-03)

Table 47: List of accounting risk disclosure – the Armed Forces Fund's Statement of Changes in Equity (Beginning 2000[70])

Statement of Changes in Equity (Beginning 2000)
Balance at 1 January (2000, 01, 02, 03)
Prior year adjustment (2000*, 01*, 03*)
Balance at 1 January as restated (2000, 01, 03)
Net gains/(losses) not recognised in the income statements: (2000, 01, 02, 03)
Exchange fluctuations (2000, 01, 02, 03)
Increase/decrease in reserves of associated companies (2000, 01, 02, 03)
Reserve realised on dilution of subsidiary companies (2000, 01)
Reserve on consolidation on additional investment in subsidiary companies (2001, 02, 03)
Premium on shares issued to minority interests (2000, 01, 02) Premium on shares issued by subsidiary companies to minority interests (2003)
Realised on dilution of associated companies (2000, 01, 02, 03)
Equity component of convertible bonds issued by a sub-subsidiary company (2003)
Changes in group structure (2002, 03)
Net profit for the year (2000, 01, 02, 03)
Transfer from/(to) accumulated profits (2000, 01, 02, 03)
Reserve realised on dilution of deemed disposal of subsidiary companies (2000, 01)
Reserve realised during the year (2002, 03)
Transfer from/(to) during the year (2000, 01, 02)
Adjustment on contributions (2001*, 02*, 03*)
Reclassification of goodwill on consolidation (2000)
Reserve realised on partial disposal of a subsidiary company (2000)
Contributions received during the year (2000, 01, 02, 03)
Dividends at 7% and at 7% for withdrawals (2000, 01, 02, 03)
Bonus credited at a percentage[71] (2000, 01, 02, 03)
Withdrawals during the year (2000, 01, 02, 03)
Housing withdrawals during the year (2000, 01, 02, 03)
Unit trust benefits (2000, 01, 02, 03)
Payment to death and disablement benefits scheme (2000, 01, 02, 03)

[70] The Statement of Changes in Equity contains several columns namely, the Members' Contribution Account column, the Reserves column (has reference to Notes to the Accounts), the Armed Forces Fund column (has reference to Notes to the Accounts), Accumulated Profit column and the Total column.

[71] This percentage may change from one year to the next.

Table 47: List of accounting risk disclosures – The Armed Forces Fund's Statement of Changes in Equity (beginning 2000) (continued)

Amortisation of loans scheme fund (2000, 01, 02, 03)
Amortisation of Fixed Assets Development Fund (2000, 01, 02, 03)
Transfer from minority interest – prior year amortisation of goodwill on consolidation (2000)
Balance at 31 December (2000, 01, 02, 03)
Balance at 1 January (2000, 01, 02, 03)
Prior year adjustment (2000*, 01*, 02*, 03*)
Balance at 1 January as restated (2000, 01, 02, 03)
Net profit for the year: (2000, 01, 02, 03)
Transfer from/(to) General Reserve Fund (2000, 01, 02, 03)
Contributions received during the year (2000, 01, 02, 03)
Adjustment on contributions (2001)
Dividends at 7% and at 7% for withdrawals (2000, 01, 02, 03)
Bonus credited at a percentage[72] (2000, 01, 02, 03)
Withdrawals during the year (2000, 01, 02, 03)
Housing withdrawals during the year (2000, 01, 02)
Unit trust benefits (2000, 01, 02, 03)
Payment to death and disablement benefits scheme (2000, 01, 02, 03)
Payment to PERHEBAT (2000, 01, 02, 03)
Balance at 31 December (2000, 01, 02, 03)

The Statement of changes in equity replaced the Members' contribution account since the year 2000. There was an emphasis on detail when the "Premium on shares issued to minority interests", (2000, 01, 02), was relabelled "Premium on shares issued by subsidiary companies to minority interests", (2003).

Armed Forces Fund: Cash Flow Statement (1996-2003)

There was no significant risk point in the disclosure of items in the cash flow statements in the period of the study. There was uniform use of terminology, facilitating comparability.

Armed Forces Fund: Notes to the Accounts (1996-2003)

There was no significant risk point in the disclosure of items in the notes to the accounts in the period of the study. There was uniform use of terminology, facilitating comparability.

[72] This percentage may change from one year to the next.

The above section did not find many significant risk points in the Annual Financial Statements. It seems that the statements have been prepared with the objective of comparability. There is no significant difference in terms used and any changes have merely reflected those brought about by the new reporting rules. The next section will look at the risk disclosure categories as per ICAEW (1998). This section will not adapt the expected disclosures as per Maali, Casson and Napier 2006 as in the Pilgrims Fund because the Armed Forces Fund did not proclaim to use Islamic *Shari'ah* law.

2. Risk disclosure categories within the financial statement as per ICAEW (1998)

Tables A5 to Table A8 in the Appendix show examples of the classification of risk categories according to ICAEW 1998, the years when the risks were reported and the statements which have reported them. The classification was made by the researcher based on the main issue discussed. Due to the length of the other risk disclosure categories tables, they are not included in this thesis but will be available on request. Table 48 shows the summary of the coding grid for the Armed Forces Fund.

Table 48: Armed Forces Fund: Summary of risk disclosure categories 1996-2003

		Risk disclosure categories						
Year	Statement name	Financial risk	Operational risk	Empowerment risk	Information processing and technology risk	Integrity risk	Strategic risk	Total
1996	Notes to the accounts		15			3		18
1997	Auditor-General's Certificate		5					5
	Notes to the accounts		14			3		17
1998	Auditor-General's Certificate		1			1		2
	Notes to the accounts		17			2		19
1999	Auditor-General's Certificate		5			8		13
	Notes to the accounts		20					20
2000	Auditor-General's Certificate		9			2		11
	Notes to the accounts		16					16
2001	Notes to the accounts		22					22
2002	Notes to the accounts	9	32				5	46
2003	Notes to the accounts		10				1	11
Total		9	166	0	0	19	6	**200**

From Table 48, it is apparent that over the years, the Armed Forces Fund has made a significant amount of disclosure, even prior to the enforcement of the new reporting rules, although the risks shown in 2002 were the highest. Similar to the Pilgrims Fund, there was no risk disclosure on empowerment risks and the Information processing and technology risks and very minimal strategic risk disclosures. Operating risks is the most declared, followed by integrity risks.

Throughout the period between 1996 to 2003, the Notes to the accounts explain the significant accounting policies such as the basis of accounting, the basis of consolidation, the definition of associated companies, goodwill and reserve on consolidation, the depreciation rate of fixed assets, the capitalisation of plantation development expenditures, the treatment of stocks and work-in-progress, the foreign exchange used in the accounting statements, the basis of income recognition, the basis of provision for bad and doubtful debts, the definition of investments, development properties, investment properties, marketable securities, repurchase agreement, bills and acceptances payable, deferred taxation, provision for retirement benefits, grants and other intangible assets.

It gives the details of the fixed assets, costs, accumulated depreciation, net book value and their division into freehold properties, long-term leasehold properties, short term leasehold properties and other fixed assets. There is a section on the changes to goodwill on consolidation, information list on holdings in subsidiary and associated companies, information on investments, on investment properties, on the land held for development, other intangible assets and detailed information on stocks.

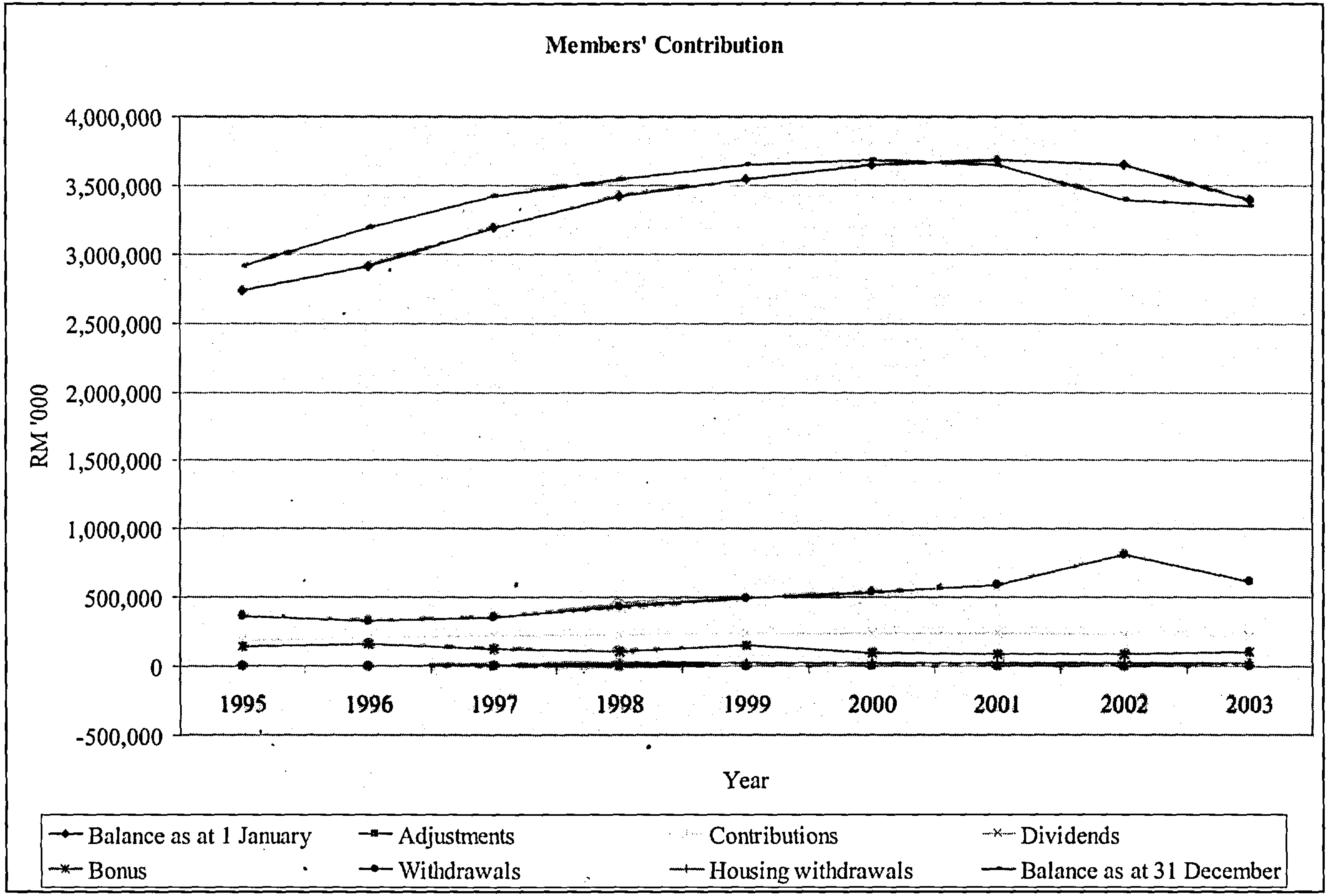
The Notes also discloses the property development-in-progress, the trade debtors, the loans, advances and financing, other debtors and prepayments, marketable securities, fixed and other deposits, cash and bank balances, deposits, term loans, other bank loans and bank overdrafts. There is detailed information on the members contribution account, the general reserve, the capital reserve, the statutory reserve, the reserve on consolidation, the profit and loss appropriation accounts, the entrepreneur development loans scheme fund, the staff loans fund, the fixed assets development fund and the deferred taxation.

Besides the above, the Notes also give a detailed account of the turnover, profit before taxation, taxation, net interest income from banking and financial institutions, adjustments to members' contributions and dividends, cash flow on acquisition and on disposal of subsidiary companies, capital commitments, other commitments and contingencies, transactions between major related companies, post balance sheet items, investments in neighbouring countries i.e. Indonesia and comparative figures.

The accounting disclosures for the years 2002 and 2003 stressed the risk management policies adopted by the Armed Forces Fund and the subsidiary companies prior to any enforcement of the disclosure. It states that a consultant was appointed in 2002 to prepare a Risk Management Policy Framework for the purpose of formulating a risk management system in the Armed Forces Fund in order for risks to be accounted for in the decision making process, ensuring reasonable action taken to minimise risks after identification of such risks and compliance with the requirements of good corporate governance. This is a proactive step taken by the Armed Forces Fund. Table 49 shows the annual increase in Members' Contributions for the Armed Forces Fund, followed by its graph. Source: Armed Forces Fund Annual Report (1995- 2003).

Table 49: List of accounting risk disclosure - the Armed Forces Fund's Annual increase in Members' Contributions

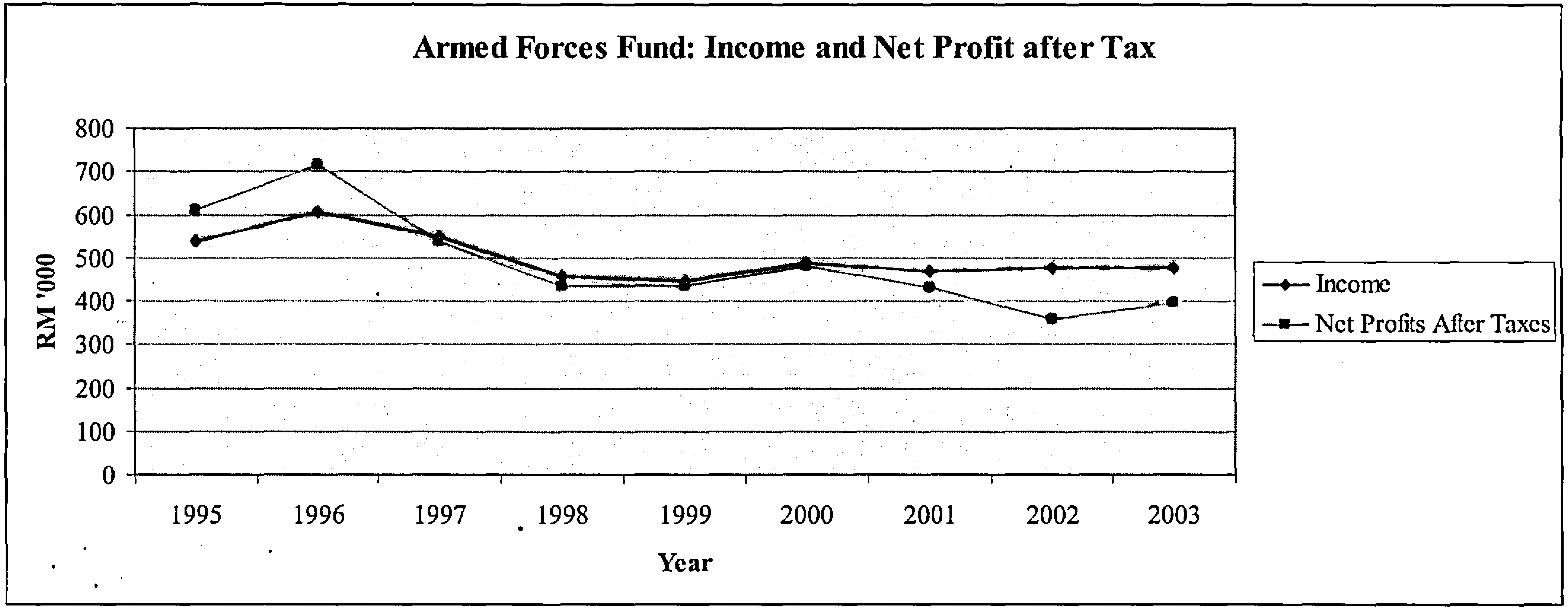
Members' Contribution (RM'000)									
Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Balance as at 1 January	2,733,572	2,906,708	3,194,438	3,420,564	3,545,476	3,650,059	3,679,586	3,649,339	3,390,052
Adjustments	7	-182	-1,276	-4	-32	-50	-25	-998	-8
Contributions	207,022	252,323	237,300	238,561	234,980	252,024	257,619	266,145	275,272
Dividends	183,851	199,954	219,412	230,757	237,117	241,803	241,611	230,746	219,858
Bonus	143,171	162,150	128,357	104,634	152,333	93,389	92,396	85,108	103,796
Withdrawals	359,376	324,567	351,858	431,613	496,228	532,738	592,712	813,263	617,973
Housing withdrawals	1,539	1,948	5,809	17,423	23,587	24,901	29,136	27,025	23,495
Balance as at 31 December	2,906,708	3,194,438	3,420,564	3,545,476	3,650,059	3,679,586	3,649,339	3,390,052	3,347,502


Members' Contribution
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
RM '000
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Balance as at 1 January
Adjustments
Contributions
Dividends
Bonus
Withdrawals
Housing withdrawals
Balance as at 31 December

The following Table 50 shows the Armed Forces Fund Income and Net Profit after Tax for the same period as disclosed by the Armed Forces Fund in its Annual Financial Report. Source: Armed Forces Fund Annual Report (1995-2003).

Table 50: The Armed Forces Fund – Income and Net Profit after Tax

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Income	538	607	550	457	445	487	469	476	475
Net Profits After Taxes	608	715	539	435	433	479	432	358	397



As per the second hypothesis, i.e. the alignment of the organisation's risk rationality with the rule enforcer's risk rationality in each arena will determine the risk reporting practices, seemed to apply to the Armed Forces Fund because it is a hierarchist organisation which complied with the reporting requirements and further voluntarily reported different categories of risks between 1996 and 2003. However, it was also found that two categories of risks as per ICAEW (1998) was not reported at all, i.e. empowerment risks, for example, on items relating to leadership and management, outsourcing, performance incentives, change readiness and communications; and information technology and processing risks, for example, on integrity, access, availability and infrastructure. Similar to the findings in the Pilgrims Fund, it seems that the Armed Forces Fund was quite unwilling to disclose this information throughout the period of study. Although the interviews conducted and internet searches do show that they practise outsourcing, i.e. use of consultancy services and providing performance incentives to employees; the interviews have given no reason for non-disclosure. It is quite interesting to note that the organisation was apparently secretive about its empowerment and information processing and technology risks.

Summary

This chapter represents the first of two chapters on the empirical findings. It reports the empirical findings within the case organisations, i.e. introducing the case organisations and investigating the risk perception of the individuals; risk reporting in the Annual Financial Statements, risk reporting by the Chairman, Chief Executive Officer and by disclosure in the corporate information part of the Annual Report. Surprisingly, it was found that, similar to the hierarchist Armed Forces Fund, the egalitarian Pilgrims Fund has individuals with hierarchist rationality. Thus the first hypothesis could not be applied on the Pilgrims Fund but could be applied on the Armed Forces Fund. In terms of the risk reporting in the Annual Financial Statements, there is slightly less disclosure by the Pilgrims Fund compared to the Armed Forces Fund. The manner in which the information was presented by the Pilgrims Fund, for example, using different terminologies within the period 1996 to 2003 did not promote longitudinal comparability and was not in any order, whilst similar information was presented by the Armed Forces Fund in a manner which was uniform and promoted comparability and understanding.

It seems that the egalitarian Pilgrims Fund, operating in a hierarchist government imposing regulations, was trying not to comply with the regulations, by reducing comparability of its statements. This act of trying to avoid total compliance was expected in cultural theory (systems operating with more than one rationalities will face some issues because of the difference in rationalities). Nevertheless, the Auditor-General Reports over the years have improved showing that the Pilgrims Fund has in fact, complied with regulations. The Armed Forces Fund, consisting of hierarchists, conforms well to the requirements for reporting imposed by the hierarchist government as per cultural theory (systems practising a similar rationality will act in harmony). Thus the second hypothesis seems to apply for both the Pilgrims Fund and the Armed Forces Fund. Following the first part on empirical findings i.e. findings within the case organisations, the next chapter which forms the second part on empirical findings will discuss on the findings external to the case organisations, i.e. within the social arena; and discuss the third and fourth research objectives.

CHAPTER 6 EMPIRICAL FINDINGS: THE SOCIAL ARENA

Introduction

The chapter is the third chapter on empirical findings, i.e. findings external to the case organisations and aims to satisfy firstly, the third research objective, to explore the risk reporting of each organisation in the media, involving exploring the different policy systems within the social arena of each case organisation according to Renn (1992c); and secondly, the fourth research objective, to explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations. This research will also observe the larger scenario, i.e. the action and reaction of the different policy systems in the social arena within which the organisations operate and how each may have influenced the organisations' risk reporting actions, especially the roles played by the actors, the potential and current stakeholders, the general public, the rule enforcers, the issue amplifiers, the social groups and the political institutions as per Renn (1992c) (See Figure 1 in Chapter 2).

This chapter introduces the social arena, the constituent policy systems, their roles and inter-relationship between themselves and between them and the case organisation, i.e. alliances within the system having similar point of views or values, and the hierarchy of control. For the Pilgrims Fund, the policy systems are the Minister-in-charge, the board of directors, the management, the potential and existing contributors, the founding father, the experts, the government, the general public, the Auditor-General, the Public Accounts Committee, the pro-government newspaper, the members of the opposition party and the pro-opposition party newspaper. For the Armed Forces Fund, the policy systems are the Minister of Defence, the board of directors, the management, the contributors, the government, the general public, the Auditor-General and the Public Accounts Committee. To satisfy the third research objective, this chapter emphasizes on risk reporting of each organisation in terms of their media representations in the arena, especially the categorization of reported risks according to the risk category framework (ICAEW 1998) and the frequency of reporting by the media. To satisfy the fourth hypothesis, this chapter tests if the application of one economic-based regulatory mechanism for all (economic-based framework on value-based organisations), will satisfy the information needs of the users in some organisations.

Pilgrims Fund: Constituent policy systems, roles, their inter-relationship amongst themselves and with the Pilgrims Fund

The main policy systems in the Pilgrims Fund are the actors, namely the board of directors, the top management, the founding father, the expert, the Auditor-General and the Public Accounts Committee[73]; the stakeholders, namely, the contributors; the general public; rule enforcers, namely the Minister-in-charge; issue amplifiers namely, the newspapers and the web blogs; social groups, namely the members of the opposition party; and political institutions, namely the ruling government; debating risks within the arena and all have an impact on the policy making of the organisation. The researcher has separated the board of directors from the top management due to the earlier case of the top management proceeding with signing and payment for purchase of property prior to obtaining the board of directors' approval. The following paragraphs will discuss the roles of each policy system in greater detail and how they interact with each other.

Actors

The board of directors and the top management are responsible for the day-to-day running of the organisation. It is their responsibility to ensure that a proper set of records are maintained. They have the power for the policy and decision making of the organisation and can mobilize resources to their advantage. They have reasonable influence over the risk reporting of the organisation. Apparently, there is a mix of hierarchist-individualist in the board of directors[74]. Through an observation of the organisation chart, most have performed the pilgrimage and would most

[73] In the figure, the experts, Auditor-General and the Public Accounts Committee were all in one circle, for simplicity. They do have different roles, interacting with each other and the others in the arena.

[74]Information on the background of the board of directors are contained in the Annual Report, 2002 and 2003. The board consists of the Chairman, a representative from the Prime Minister's Department, a representative from Treasury, seven members appointed by the Minister and the Chief Executive Officer. The Chairman and the Chief Executive Officers are ex-businessmen (individualists). The representatives from both the Prime Minister's Department and the Treasury are hierarchists. The other board members are politicians (hierarchists) cum businesswomen (individualists), businessmen (individualists) and politicians (hierarchists) cum businessmen (individualists).

probably be committed to religion. But the interviews also found that there are hierarchists as well as individualists in top management. Thus there is a conflict between the hierarchists-individualists in the board of directors and the egalitarians hierarchists-individualists in the top management.

Another reason the top management was separated from the board of directors is because of the case when the top management was accused of giving misleading advice to the Minister to approve an investment for which the Pilgrims Fund later sustained losses. The two senior managers were later found guilty whilst the ex-Minister did not receive any penalties. In terms of control, the board of directors holds the third highest control of the organisation, after the political institution and the Minister, whilst the top management has the fourth control in the arena.

The founding father is the Royal Professor Ungku Abdul Aziz. He normally made his comments in the local newspapers which would inform the public of the ongoings within the Pilgrims Fund. However, he has minimal control of the arena and has minimal resources to make his voice heard. He is an economist and a lecturer, and has helped the country in numerous efforts to improve the economic condition of the poorer community. He seems to have the egalitarian rationality.

Experts are people with knowledge in their respective areas and are willing to contribute ideas for the good of the organisation, religion and the general public. In terms of the Pilgrims Fund, the experts are mostly religious individuals with considerable religious knowledge, who felt obligated to correct any religious misrepresentations by the organisation. The founding father, the Royal Professor Ungku Aziz is an expert in his own right. Due to their knowledge, experts are normally looked upon by the other policy systems within the arena, especially by the contributors. However, in the case of the Pilgrims Fund, experts are sometimes members of the opposition party who may have a different motive when voicing their opinion. Experts can be actors when they affect the risk reporting of the organisations, and at the same time they can also be members of the social groups, i.e. the opposition party on the outskirts of the arena. Experts apparently belong to the egalitarian group, i.e. fighting for the good of members within the community.

Similar to the founding father, experts have minimal control on the arena and have minimal resource to highlight an issue.

The Auditor-General and the Public Accounts Committee are the actors in the Pilgrims Fund's arena. Through the audit report, the Auditor-General reaches the audience to amplify issues found during the audit investigation. The Auditor-General's Report over the period of study has amplified some serious issues pertaining to the Pilgrims Fund. They too have an influence on the risk reporting of the organisation. These two are hierarchist policy systems, i.e. due to their connotation to the application of the law on the case organisation. Table 51 shows the types of audit reports issued by the Auditor-General.

Table 51: Types of Audit Reports

Year	Financial statements with unqualified reports	Financial statements with qualified reports	Financial statements with adverse reports	Financial statements with disclaimer reports	Financial statements with modified reports	Total
1996	79	27	2			108[75]
1997	67	30	2	1		100
1998	57	39	2			98
1999						
2000						
2001	71	14			7	92
2002	97	10				107
2003	107	4				111(22)[76]

Table 52 shows the audit reports received by the two statutory bodies over the research period. An unqualified report means that the Auditor-General believes that the financial statements audited shows a true and fair view of the business affairs. Any qualifications would render the report qualified whereas a management letter is

[75] Of these, 100 reports are for the 1996 financial year, whilst the other 8 relates to previous years.
[76] Numbers in brackets show the number of statutory bodies audited by the National Audit Department.
National Audit Department, June 2005, "Auditor-General's Report, Federal statutory bodies for the year 2004", p. 3. The remaining 89 financial statements are audited by the private audit firms appointed by the Auditor-General. This appointment of the private audit firms was made under the provisions of of the Audit Act 1957, Section 7(3). The Act empowers the Auditor-General to appoint any party with the capabilities to audit on his behalf. The conditions for audit were stipulated in the written agreement.

addressed by the Auditor-General to the management to explain matters found during the audit that should be rectified by the management. The management normally answers to this by a communication addressed to the Auditor-General. Where there has been a management letter, even though it is not a statutory requirement, the Pilgrims Fund has always shown a copy of the management's reply to the Auditor-General in its Annual Financial Statements. However, the same is not disclosed by the Armed Forces Fund.

This implies a response to cultural theory, i.e. when the organisation is an egalitarian organisation, as in the case of the Pilgrims' Fund, there is a responsibility towards its enclosed community, thus disclosure of the management's reply to the Auditor-General in the Annual Financial Statements. On the other hand when the organisation is a hierarchist organisation as in the case of the Armed Forces Fund, they see the absence of any legal requirement to disclose any correspondence with the Auditor-General and therefore did not disclose.

The Auditor-General reports to the Monarch in Parliament and therefore has considerably high advisory powers. However, this advisory capacity does not permit him the power to force statutory organisations to adhere to reporting standards.

The Public Accounts Committee normally takes up the issues stated by the Auditor-General and calls the relevant Minister to explain on the issues. The Public Accounts Committee is a national accounting committee formed by the Parliament with the objectives of checking that the government's accounting and fund allocation approved by the Parliament have met the state expenditure; that any accounting of national administrative bodies and other associations that handle state fund are tabled in Parliament; and that national accounting statements are tabled in Proceeding Council as per Article 107 of the Federal Constitution. Another objective is to check any other matters that the Committee thinks should be checked or other matters handed by the Council. The Public Accounts Committee is authorized by Section 77(d) of the House of Representatives Standing Instruction to discuss any matter

Table 52: Types of Audit Reports received

1996	1997	1998	1999
AFF: Unqualified Report thus no comments.	AFF Qualified Report but no comments.	AFF Qualified Report with Management Letter, both without comments.	AFF Qualified Report but no comments.
Pilgrims Fund Qualified Report with Management Letter, both with comments.	Pilgrims Fund Qualified Report with Management Letter, both with comments.	Pilgrims Fund Qualified Report with comments.	Pilgrims Fund Qualified Report with comments.

2000	2001	2002	2003
AFF Unqualified Report with Management Letter but no comments.	AFF Unqualified Report thus no comments.	AFF Unqualified Report thus no comments.	AFF Unqualified Report thus no comments.
Pilgrims Fund Annual Report and Financial Statement not available	Pilgrims Fund Unqualified Report thus no comments.	Pilgrims Fund Unqualified Report thus no comments.	Pilgrims Fund Unqualified Report thus no comments.

besides issues that were raised in the Auditor-General's report. It can conduct hearings on matters that it is investigating.

Stakeholders

The stakeholders are "those groups without whose support the organisation would cease to exist" (Sternberg 1997, p. 31). They are "any group or individual who can affect or is affected by the achievement of the organisation's objectives." (*Ibid*, p. 46). They are people who have relatively little ability to exert economic influence over a particular company, and whose lives are significantly affected by the company's activities (Unerman & Bennett 2004). As stated by Hill, Fraser and Cotton (2001, p. 459) the definition of stakeholders depends on prevailing legal, financial and economic interests. Hill, Fraser and Cotton (2001) also recognise the possibility of lack of power of a particular stakeholder group. In the Pilgrims Fund, the stakeholders are the contributors and the general public. Stakeholders with value-based or economic-based interest on the organisation would try to exert influence over the risk reporting of the organisation. In the Pilgrims Fund the stakeholders are mostly egalitarian.

General public

The general public looks upon the Pilgrims Fund as an organisation committed to serving religious aims, and would help in the economic development of the nation. Therefore, a better performance for the fund will mean that the organization is better able to help in economic crises, as happened in late 1997 and 2001. They too have minimal control on the policy decision making of the organisation. The general public has different risk rationalities, which may determine which policy systems the members of the general public would later join.

Rule enforcer

The rule enforcer is the institution which monitors the Pilgrims Fund. This is the Minister-in-charge to whom the Pilgrims Fund is directly responsible. Section 10 of the Pilgrims Fund Act 1995, states that the Minister may give general directions to the Pilgrims Fund and the organisation should furnish the Minister with returns, accounts and other information with respect to the property and the activities of the Pilgrims Fund as he requires. In terms of risk reporting, the Minister has considerable control on what the organisation can or cannot do but has little control on other policy systems in the arena besides the board of directors and the top management. From the findings, the present Minister is apparently an egalitarian[77].

Issue amplifiers

Issue amplifiers are policy systems which communicates information from its source to the larger community, for example the media. The media amplifies issues raised by both the Auditor-General and the Public Accounts Committee to reach an even larger audience. The media is often backed by either the ruling party or the opposition party and the news it amplifies are normally skewed either to one direction or the other. Besides *Harakah,* the daily newspapers include Utusan Malaysia, Berita Harian, the Star, the New Straits Times, the Malay Mail, Sin Chew Jit Poh and Nanyang Siang Pau. All these presents the news in different languages explained to varying degrees of detail and each has their own market. Exposure of an issue taken up by one paper could generate public interest and can easily be expanded by the others more comprehensively.

Principally, although the legislative matters on religion fall into the jurisdiction of the respective State Governments (List II, Schedule 9 of the Federal Constitution), the administration of pilgrimage by the Pilgrims Fund is handled by the Federal Government through the Prime Minister's Department; for purposes of better coordinating the nation's pilgrims. This has been perceived by the opposition as an effort to utilise the savings within the Pilgrims Fund to assist the ruling government. The issues relating to Pilgrims Fund were interpreted according to their culture and later communicated through various websites and through their daily members-only publication, the *Harakah.* This publication, although registered to be sold to members only, are still easily available to the general public through local newsagents and is seen as an alternative perspective to other newspapers. Although the *Harakah* publication is targeted only to members, its wide availability generates

[77] All Ministers-in-charge of the Pilgrims Fund has previous experience as a religious teacher.

enough interest from the rest of the general public. It seems that the publication has considerable influence on the risk reporting of the organisation. Issue amplifiers from the opposition party are egalitarians, web bloggers are individualists whilst issue amplifiers from the ruling party are hierarchists.

Social group

The opposition party is apparently interested in generating news that will finally draw more support for their party. In Malaysia, the opposition party is divided mainly into the Islamic Party (PAS) the party which was originally fighting for religion, and the Democratic Action Party (DAP). Due to the nature of its activities as well as the expert knowledge within the party, PAS has been very critical of the activities of Pilgrims Fund. They belong to the egalitarian risk rationality group.

Political institution

The political institution's role is to oversee the overall performance of the case organisations. It only comes into action when the interactions within the arena have reached a heated discussion level that could not be resolved by the other members in the arena. The political institution apparently has the highest control on the organisation through governmental influence. In terms of the Pilgrims Fund, the manifestation of this exclusive power to the ruling government was made through the change in the Act. The political institution is hierarchist.

Other policy systems

Other smaller policy systems in the arena include the Integrity Institute of Malaysia, which gives advice on integrity to the private sector and can be consulted by the public sector. However, it only has an advisory capacity as it does not have the right to prosecute. The Ministry of International Trade and Industry has the responsibility to distribute shares of manufacturing and non-manufacturing companies, not including insurance companies, banks and privatized government companies. The quantities of shares that can be allocation to the Pilgrims Fund are not limited. Some shares are even especially offered to the Pilgrims Fund. It is up to Pilgrims Fund whether to accept or reject the offer. Still other policy systems within the arena are originally members of the general public, who through social mobilization filters into the social groups, such as Non-Governmental Organisations and the potential stakeholders. Examples of the potential stakeholders are people who have the intention of performing the pilgrimage but have yet to become a member. Some may later become actors.

These other policy systems within the arena have insignificant impact on the case organisations[78] and therefore will not be depicted in the social arena metaphor.

Results from the customers questionnaires

A set of questionnaires was distributed to contributors of the Pilgrims Fund to find out their opinion on the organisation. Although there were only twenty nine email responses and thirteen questionnaires received from thirteen individuals approached, the results should shed some idea on the perceptions of the contributors on the Pilgrims Fund. The questionnaires were given out to contributors with a response of 39% male and 61% female. About 41% of the respondents were found to be less than 40 years old whilst 59% has been saving for at least the last ten years. Of them, 50% contributes through monthly salary deductions, 27% paid in cash, 9% contributed by other means, for example, through their mother's salary deduction and 14% contributed both by salary deduction and by cash.

Of the respondents, 71% agreed that they save in Pilgrims Fund to perform pilgrimage and because of its Islamic banking principles, another 64% quoted their reason for the automatic *Zakat* payment offered by Pilgrims Fund, 61% stated the reason is to uphold Islamic principles, 36% stated the reason being its risk-free savings, 11% said that there is no more appropriate place to invest and 29% said it is because of the reasonable pilgrimage fares offered by the Pilgrims Fund.

Another 61% of the respondents do not have investments in non-Islamic banks, 36% have savings in Islamic banks, 50% have investments in trust funds, 89% do not have investments in the open share market and 96% do not have investments in the

[78] Integrity Institute and MITI both have advisory capacity on the case organisations, thus what they require is not mandatory on the case organisations.

Islamic share market. Of the respondents, 25% have performed pilgrimage. Of those who have not, 85% said that they will still save with Pilgrims Fund, even after they performed the pilgrimage. Of those intending to perform the pilgrimage, 26% said that they would like to perform it once in their lives, 59% said they would want to perform it more than once and 15% said they would want to perform it as many times as is possible.

Some respondents suggested other services should be offered by the Pilgrims Fund, such as Islamic cash loan, Islamic insurance, Islamic investment services, the facility of withdrawal through banker's cheque at all branches, the issuance of a Pilgrims Fund debit card, facilities for home purchase and schemes to help the poor as well as those physically disabled. On the other hand, there is also a suggestion that Pilgrims Fund does not diversify and stick solely to sending people for pilgrimage.

Armed Forces Fund: Constituent policy systems, roles, their inter-relationship amongst themselves and with the Armed Forces Fund

The main policy systems in the Armed Forces Fund are the actors, namely the board of directors, the top management, the experts, the Auditor-General and the Public Accounts Committee[79]; the stakeholders, namely, the contributors, the retired armed forces personnel and the would-be recruits; the general public; rule enforcers, namely the Minister-in-charge; issue amplifiers namely, the newspapers and the web blogs; social groups, namely the family members of the contributors and ex-contributors; and political institutions, namely the ruling government; debating risks within the arena and all have an impact on the policy making of the organisation. In contrast to the Pilgrims Fund, there are much lesser policy systems in the Armed Forces Fund arena, and they seem to be in harmony with each other.

A significant point to note is that although a majority of the stakeholders in the Armed Forces Fund is a subset of those in the Pilgrims Fund, there is no apparent inclusion of evidence of Islamic accounting in the Armed Forces Fund financial reporting or through the media as compared to the Pilgrims Fund. The stakeholders

[79] In the figure, the board of directors and the top management were all in one circle, due to similar roles and their unity.

seem to assume a different mentality by not holding the Armed Forces Fund accountable of its 'Islamic' obligations. This is different in the case of the Pilgrims Fund, which has higher reaction from stakeholders on its accountability of its Islamic obligations. The stakeholders seem to hold the Pilgrims Fund responsible as the organizations proclaims adherence to Islamic *Shari'ah* law.

Actors

In the Armed Forces Fund, the board of directors and the top management have always been responsible together for the day-to-day running of the organisation. They ensure that a proper set of records are maintained. They engage in meetings to discuss the best course of action for the organisation and can mobilize resources to their advantage. They have considerable influence on the risk reporting of the organisation. They consist of strong hierarchists[80].

Experts on the activities of the Armed Forces Fund are normally employed within the organisation. For example, when the Consultant on Risk Management suggested the establishment of a new Risk Management Department within the organisation, the Armed Forces Fund offered her the post of Manager in the soon to be established Risk Management Department. Due to their association with the Ministry of Defence, from the interviews conducted, they are strong hierarchists.

Similar to the Pilgrims Fund, the Auditor-General reports issues in the financial statements through the audit report. Through his report, he can influence the risk reporting of the organisation. Table 52 shows the audit reports received by the two statutory bodies over the research period. Similar as in the Pilgrims Fund, the Public Accounts Committee normally takes up the issues stated in the Auditor-General's Report and will call the relevant Minister to explain issues should any need for it arises. Both the Auditor-General and the Public Accounts Committee are hierarchist institutions.

[80] All top management and board of directors consists of ex-Armed Forces Personnel.

Stakeholders

In the Armed Forces Fund, the stakeholders include the contributors. All the contributors for the Armed Forces Fund are government servants. The government has further increased the salaries of Armed Forces by between 9 to 42 per cent effective 1 July 2007[81] to improve their standard of living which was formerly close to the poverty threshold. There is also a general increase of between 7.5 to 35 per cent given to other government servants. Since the contributors are servicemen, they are strong hierarchists. Other stakeholders in the Armed Forces Fund are the retired Armed Forces personnel, and the potential new recruits to the force. Generally, the stakeholders are strong hierarchists.

General public

The general public looks upon the Armed Forces Fund not only as an organisation committed to serving the country towards national security but also would help in the economic development of the nation. Therefore, a better performance for the fund will mean that they are better able to help in economic crises, as happened in late 1997 and 2001. The general public has minimal control on the policy decision making of the organisation. The general public has different risk rationalities, which may determine which policy systems the members of the general public would later join.

Rule enforcer

The rule enforcer is the Minister of Defence. Section 7 of the Armed Forces Fund Act 1973, states that the Armed Forces Fund is directly responsible to the Minister of Defence. The Minister approves major investment decisions of the organisation and has considerable influence on the organisation's risk reporting. He previously had military education. He is a strong hierarchist.

Issue amplifiers

The media are the issue amplifiers in the Armed Forces Fund arena. The media amplifies what was reported by the Auditor-General and other policy systems.

[81] http://thestar.com.my/news/story.asp?file=/2007/5/22/nation/17796001&sec=nation 22/5/2007.

Depending on the resources available to the media, there may be high or low coverage on the issues. Media coverage does have an influence on the organisation's risk reporting. The newspaper that amplifies news on the Armed Forces Fund is also hierarchist.

Social group

The family members of the contributors and ex-contributors form the social group that is interested in the Armed Forces Fund, mainly for economic reasons. The Armed Forces Fund normally attends to all the needs of this group and because of that, there have been minimal complaints from the social group. The social group consists of hierarchists.

Political institution

Similar to the case in the Pilgrims Fund, the political institution's role is to oversee the overall performance of the case organisations. The political institution apparently has the highest control on the organisation through governmental influence. The Armed Forces Fund has been under the control of the hierarchist ruling government since its incorporation. The political institution is hierarchist.

Other policy systems

Similar to the Pilgrims Fund, other smaller policy systems in the arena include the Integrity Institute of Malaysia, which gives advice on integrity to the private sector and can be consulted by the public sector. However, it only has an advisory capacity as it does not have the right to prosecute. The Ministry of International Trade and Industry has the responsibility to distribute shares of manufacturing and non-manufacturing companies, not including insurance companies, banks and privatized government companies. The quantities of shares that can be allocation to the Armed Forces Fund are not limited. However, the Armed Forces Fund normally would decline shares that they think would not yield much income. Still other policy systems within the arena are originally members of the general public, who through social mobilization filters into the social groups, such as Non-Governmental Organisations and the potential stakeholders.

These other policy systems within the arena have insignificant impact on the case organisations[82] and therefore will not be depicted in the social arena metaphor.

In accordance to the findings of this chapter, the third hypothesis, i.e. the alignment of the case organisation's risk rationality with the risk rationality of all the different policy systems within the social arena will determine the nature and extent of the risk reporting gap; seems to apply to both the Pilgrims Fund and the Armed Forces Fund.

Representations through the media - Alternative risk reporting

The Pilgrims Fund acts as its own issue amplifier by producing other publications through the newspapers and the internet as and when required, especially after its restructuring in 2001-2002 to restore its image and the people's confidence[83], such as the two[84] special edition pull-out magazines accompanying the local Saturday or Sunday paper (i.e., the 36 pages special edition magazine for the 2003 pilgrimage session accompanying the local Sunday paper on 5 January 2003 and another 36 pages special edition magazine for the 2003 pilgrimage session, accompanying the Saturday paper on 27 December 2003, both printed in Malay); a special promotional magazine ('Lets aim for success', in Malay); the 8 pages monthly news bulletin for the six months' between January to June 2005 printed for distribution as well as uploaded to their website, www.tabunghaji.gov.my. There were no further updates on these since then.

Table 53 shows an example of how the risk disclosure categories in the alternative risk reporting documentation, i.e. the special pull-out magazine from 5 January 2003, was made. This categorisation were then summarised in Table 54 which shows the analysis of risk disclosure categories within alternative documentation; including the pull-out magazines dated 5 January 2003 and 27 December 2003, the special promotional magazine and the 8 pages monthly news bulletin between January and June in the year 2005.

---

[82] Integrity Institute and MITI both have advisory capacity on the case organisations, thus what they require is not mandatory on the case organisations.
[83] Statement by Mohd Bakke Salleh, Chief Executive Edition on 5 January 2003 in the pull-out magazine, page 10.
[84] The special pull-out magazines were only published for the two dates, i.e. 5 January 2003 and 27 December 2003

Table 53: Risk disclosure category in special pull-out magazine 5 January 2003

Risk category	Types of risks	Matters disclosed
Financial risk	Interest rate	
	Exchange rate	1. Economic crises. 2. Losses due to foreign exchange – 70% of total pilgrimage costs in spent in Saudi Arabia.
	Commodity	
	Liquidity	
	Credit	
Operations risk	Customer satisfaction	1. Main investment institution for Muslims.
	Product development	1. Provision of food. 2. Widen investment and business opportunities. 3. PF uses professional mechanism to tighten investment approval process by creating the Investment Assessment Commitee. 4. A 6-tier approval process for investments. 5. Investment decision will finally be approved by Minister-in-charge. 6. Creation of asset provision framework. 7. Wheeled bags for pilgrims. 8. Product development ventures with international companies.
	Efficiency and performance	1. We are excellent in pilgrimage services. 2. Statement of total savings and depositor numbers. 3. Staff training to master skills. 4. Commendation by Ministry of Pilgrimage, Saudi Arabia. 6. Human Resources Department to train staff in providing quality service.
	Sourcing	

Table 53: Risk disclosure category in special pull-out magazine 5 January 2003 (continued)

Risk category	Types of risks	Matters disclosed
Operations risk (continued)	Stock obsolescence and shrinkage	1. More withdrawals in March, April 2002 due to depletion of depositors' trust in Pilgrims Fund. 2. Sale of unprofitable assets.
	Product and service failure	1. Guaranteed investments by the government. 2. Product failure because invested in miscellaneous supposedly profitable shares without having a systematic risk study framework. 3. Various weaknesses in previous investments due to absence of person responsible for where or how the investments were made, resulting in losses. 4. Investments made in a computer trading subsidiary were made with high costs and risks and no computer expertise from the Pilgrims Fund resulting in the termination of the company. 5. Low bonus of 3.25% in 2001. 6. Chief Executive Officer, Mohd Bakke Salleh: Pilgrims Fund is not a sinking ship (early 2002).
	Environmental	1. *Zakat* totals RM 152.9 million since establishment to 2003. 2. Job opportunities.
	Health and safety	1. Provision of hospital. 2. Services for ailing pilgrims. 3. Provision of health services, pilgrimage courses etc. 4. Additional recuperating centres for ailing pilgrims, additional ambulances.
	Brand name erosion	

Table 53: Risk disclosure category in special pull-out magazine 5 January 2003 (continued)

Risk category	Types of risks	Matters disclosed
Empowerment risk	Leadership and management	1. Engaging professionals in the Investment Panel and in general management. 2. Ministry urge depositors to give the Pilgrims Fund their full confidence. 3. Management restructure in the Pilgrims Fund. 4. Expertise in investments secured. 5. Minister, management, board of directors, to secure depositors' interests through government backing. 6. Management restructuring merged 16 subsidiaries into only 4. 7. Centralised procurement and purchases department to obtain bulk discounts. 8. Registered suppliers panel for the Pilgrims Fund group supply services. 9. Re-estimate budgets to reduce waste. 10. Setup group accounts.
	Outsourcing	1. External consultant to determine equity and shares framework, fixed income and asset purchases for high and continuous returns. 2. Appointment of external consultants.
	Performance incentives	
	Change readiness	1. Changes in the Pilgrims Fund. 2. Pilgrims Fund experiences changes to the incorporating Act.
	Communication	
Information processing and technology risk	Integrity	1. Guaranteed: No loss or fraud in the Pilgrims Fund
	Access	
	Availability	

Table 53: Risk disclosure category in special pull-out magazine 5 January 2003 (continued)

Risk category	Types of risks	Matters disclosed
Information processing and technology risk (continued)	Infrastructure	1. Engagement of investment consultant. 2. Employment of risk management. 3. Forming of special hajj accounts. 4. Upgrading of IT systems to improve pilgrimage planning and budget control.
Integrity risk	Management and employee fraud	
	Illegal acts	1. Highly technological counter services minimise fraud. 2. Loss of monies.
	Reputation	1. Dr Yusuf Al Qardawi's commendation. 2. To rebuild our image, we have to prove that the management is professional, transparent and efficient. 3. Conducted conference on pilgrimage training. 4. Other Islamic countries send officers to learn from Malaysia. 5. The Pilgrims Funds' as role model to other Islamic countries
Strategic risk	Environmental scan	
	Industry	1. Pilgrims Fund is unique.
	Business portfolio	1. Engaging in business. 2. Securing land or investment opportunities from the state government. 3. No high risk projects. 4. Only 4 subsidiaries involved in: plantation, property, construction and pilgrimage. 5. Characteristics of investments: *halal*, low risk, good returns 6. Luxury equity shares and Islamic bonds to reduce risks

Table 53: Risk disclosure category in special pull-out magazine 5 January 2003 (continued)

Risk category	Types of risks	Matters disclosed
Strategic risks (continued)	Competitors	
	Pricing	1. Cheap. 2. Includes flight, accommodation and transport. 3. Other costs bound by the Pilgrims Fund. 4. Costs of training courses. 5. Costs of medicine. 6. Costs increment 1998. 7. Costs increment 1999. 8. Costs increment 2000. 9. Costs remained 2001. 10. Costs increment 2002. 11. New regulations, thus costs increment in 2003. 12. Increments in costs in 2003 to be borne by the Pilgrims Fund and the government.
	Valuation	

Table 53: Risk disclosure category in special pull-out magazine 5 January 2003 (continued)

Risk category	Types of risks	Matters disclosed
Strategic risks (continued)	Planning	1. Government intends to provide comfortable space. 2. Post mortem of operations. 3. Subsidiary restructuring plan. 4. Concentration on improving pilgrimage management. 5. Trying to keep pilgrimage costs including flight and accommodation at a minimum. 6. Improving accommodation quality to 3-4 star hotels. 7. Better investment opportunities. 8. Increase expertise of subsidiary companies. 9. Restructuring the Investment Panel. 10. Merger of subsidiary companies. 11. Focus on four areas. 12. Terminate non-performing subsidiaries. 13. New committee to oversee the decision making process. 14. List of names of the committee. 15. Annual bonus to depositors.
	Life cycle	
	Performance measurement	
	Regulatory	1. New internal control procedures. 2. Additional security features for fingerprinting linked to the National Registration Department online. 3. Control on cash movement. 4. New regulations on depositors department.
	Sovereign and political	

Empty spaces in the 'Matters disclosed' column show that no such reporting was made.

It seems that the empowerment risks and the information processing and technology risks which were quite poorly reported in the regulated financial statements were disclosed in the alternative reporting documentation. However, it seems that the alternative reporting was only made immediately after the new management i.e. in 2003 and through the six monthly bulletins in 2005. There seems to be no more alternative reporting by the organisation after that.

Table 55 shows the expected disclosures as per Maali, Casson and Napier (2006) adapted to the risk disclosure categories as per ICAEW (1998) in the alternative risk reporting documentation. It shows that most of the risks reported have implications on the integrity of the organisation, i.e. building a reputation that the organisation does provide for charity.

Table 54: Risk disclosure within alternative documentation

		Risk disclosure categories						
Date/Year	Statement name	Financial risk	Operational risk	Empowerment risk	Information processing and technology risk	Integrity risk	Strategic risk	Total
05/01/2003	Special edition on pilgrimage session	2	29	14	5	7	38	95
27/12/2003	Special edition on pilgrimage session	0	18	1	0	0	5	24
Not dated	Special promotional magazine 'Lets aim for success'	0	19	1	9	3	9	41
January 2005	Monthly news bulletin	0	4	0	0	0	0	4
February 2005	Monthly news bulletin	0	5	0	0	0	5	10
March 2005	Monthly news bulletin	0	26	4	0	0	5	35
April 2005	Monthly news bulletin	0	13	0	0	17	1	31
May 2005	Monthly news bulletin	0	16	1	0	53	1	71
June 2005	Monthly news bulletin	0	19	0	5	14	3	41
Total		2	149	21	19	94	67	**352**

Table 55: Expected disclosures (Maali, Casson & Napier 2006) adapted to risk disclosure categories (ICAEW 1998) in the alternative risk reporting documentation

Area	Items to be disclosed	Risk disclosure category	How reported?
Shari'ah opinion	1. Report of *Shari'ah* Supervisory Board	Strategic risk-Regulatory	Not reported.
Unlawful (*Haram*) transactions	1. Nature of unlawful transactions	Integrity risk-Illegal acts	1. The Chief Executive Officer stated there were losses in previous years but did not state their nature.
	2. Reasons for undertaking such transactions	Integrity risk-Reputation	Not reported.
	3. The *Shari'ah* Board's view about the necessity of these transactions	Strategic risk-Regulatory	Not reported.
	4. The amount of revenue or expenses from these transactions	Integrity risk-Reputation	1. The amount was stated, but it was not revenues, it was losses (a statement made by Chief Executive Officer, Mohd Bakke Salleh in early 2002 and included in the special pull-out on 5 January 2003).
	5. How the bank disposed, or intends to dispose, of such revenues	Integrity risk-Reputation	Not reported

Table 55: Expected disclosures (Maali, Casson & Napier 2006) adapted to risk disclosure categories (ICAEW 1998) in the alternative risk reporting documentation (continued)

Zakat (for banks required to pay it)	1. Statement of sources and uses of *Zakat*	Operations risk-Efficiency and performance	Not reported.
	2. The balance of the *Zakat* fund, and reasons for non-distribution	Integrity risk-Reputation	Not reported.
	3. *Shari'ah* Board attestation regarding the computation and distribution of the funds	Strategic risk-Regulatory	Not reported.
Zakat (for banks not required to pay it)	1. The amount due in respect of shares and deposits	Integrity risk-Reputation	Not reported.
	2. The *Shari'ah* Board's opinion regarding validity of computation	Strategic risk-Regulatory	Not reported.
Quard Hassan	1. Sources of funds allocated to *Quard*	Integrity risk-Reputation	Not reported.
	2. The amounts given to beneficiaries	Strategic risk-Business portfolio	Not reported.
	3. The social purposes for which the funds were given	Integrity risk-Reputation	Not reported.
	4. The policy of the bank in providing such loans	Financial risk-Credit	Not reported.
	5. The policy of dealing with insolvent beneficiaries	Financial risk-Credit	Not reported.

Table 55: Expected disclosures (Maali, Casson & Napier 2006) adapted to risk disclosure categories (ICAEW 1998) in the alternative risk reporting documentation (continued)

Area	Items to be disclosed	Risk disclosure category	How reported?
Charitable and social activities	1. The nature of charitable and social activities financed	Integrity risk-Reputation	1. An amount of RM500,000 were contributed to the Malaysian tsunami relief fund (January 2005 monthly news bulletin). 2. An amount of RM20,000 collected from pilgrims was contributed to the Makkah Financial Director of the Pilgrims Fund (March 2005 monthly news bulletin). 3. *Al-Mithali* award given to brilliant students from poor families, and to rural schools showing outstanding academic and co-curricular achievements (May 2005 monthly news bulletin). 4. Savings encouragement award to primary and secondary schools in the central region (May 2005 monthly news bulletin). 5. *Al-Mithali* award given to brilliant students from poor families, and to rural schools showing outstanding academic and co-curricular achievements for the northern and the southern region (May 2005 monthly news bulletin).

Table 55: Expected disclosures (Maali, Casson & Napier 2006) adapted to risk disclosure categories (ICAEW 1998) in the alternative risk reporting documentation (continued)

Area	Items to be disclosed	Risk disclosure category	How reported?
	2. The amount spent in these activities	Strategic risk-Business portfolio	1. RM500,000. 2. RM20,000. 3. Not reported. 4. RM13,200. 5. RM7,300.
	3. The sources of funds used to finance these activities	Financial risk-Liquidity	1. Not reported. 2. Pilgrims. 3. Not reported. 4. Not reported. 5. Not reported.
Employees	1. The policy on wages and other remuneration	Operations risk-Efficiency and performance	Not reported.
	2. The policy on education and training of employees	Operations risk-Health and safety	Not reported.
	3. The policy of equal opportunities	Empowerment risk-performance incentives	Not reported.
	4. The policy on the working environment	Strategic risk-Planning	Not reported.
Late repayments and insolvent clients	1. The policy in dealing with insolvent clients	Integrity risk-Reputation	Not reported.
	2. The amount charged as late penalty, if any	Strategic risk-Business portfolio	Not reported.

Table 55: Expected disclosures (Maali, Casson & Napier 2006) adapted to risk disclosure categories (ICAEW 1998) in the alternative risk reporting documentation (continued)

Area	Items to be disclosed	Risk disclosure category	How reported?
	3. The *Shari'ah* Board's opinion regarding the permissibility of imposing additional charges (such as late penalties)	Strategic risk-Regulatory	Not reported.
Environment	1. The amount and nature of any donation or activities undertaken to protect the environment	Operations risk-Environmental	Not reported.
	2. The projects financed by the bank that may lead to harming the environment	Integrity risk-Illegal act	Not reported.
Other aspects of community involvement	1. The bank's role in economic development	Integrity risk-Reputation	1. Stated that the Pilgrims Fund has created job opportunities for the local population.
	2. The bank's role in addressing social problems	Strategic risk-Business portfolio	2. Not reported.

There seems to be an apparent lack of risk disclosure categories as per Maali, Casson and Napier (2006) in the alternative risk reporting disclosure, i.e. the Pilgrims Fund has not fulfilled its value-based reporting in view of the economic-based reporting required of it. Apparently the lack of imposing regulation on the value-based reporting, coupled with the hierarchist rationality of the respondents within the Pilgrims Fund has substantially reduced the amount of alternative value-based reporting by the organisation.

The Armed Forces Fund has also established a website which forms part of its reporting to the world at www.ltat.org.my. This website conveys pictorial news, events and happenings within the organisation.

Representations through the media – Pilgrims Fund and Armed Forces Fund

Tables 56 and 57 show a sample of the dates of the documents, the topics of discussion and the web address of the information for the Pilgrims Fund and the Armed Forces Fund, respectively, that appeared on the internet over the period of study. The articles were categorized into the different risk categories as per Linsley and Shrives (2006) after generalising the main idea within each. The full tables showing the risk reporting for the duration of the study is available on request. A summary of the risk reporting for both Pilgrims Fund and the Armed Forces Fund for the same period is shown in Table 58. Due to the fact that the mass media risk reporting may not have originated from either the Pilgrims Fund or the Armed Forces Fund, a further analysis categorising whether the report on the case organisations gives either a positive or negative impact is made based on the main theme of the news article.

Table 56: Pilgrims Fund: News on the net

Document date	Topic of discussion and the web address	Risk category	Positive/Negative
2 March 1997	Pilgrims Fund has deviated from its incorporation philosophy http://server.com/WebApps/db-view.cgi?id=97302	Integrity risk - reputation	Negative – states that PF no longer emphasize religious values
29 July 1998	Pilgrims Fund excellent achievement http://www.utusan.com.my/utusan/archive.asp?y=1998&dt=0729&pub=utusan_malaysia&sec=rencana&pg=ot_02.htm&arc=hive	Operations risk-performance	Positive – announcing better PF performance
8 March 2001	Low Pilgrims Fund bonuses – it's inappropriate! http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=0829&pub=utusan_malaysia&sec=muka%5Fhadapan&pg=mh_01.htm&arc=hive	Operations risk – customer satisfaction	Negative – implies PF could have paid more
29 August 2001	Pilgrims Fund newly planned withdrawals system to avoid withdrawals fraud http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=0829&pub=utusan_malaysia&sec=muka%5Fhadapan&pg=mh_01.htm&arc=hive	Integrity risk – illegal acts	Positive – security of savings
10 October 2001	Pilgrims Fund investment panel appointed on credibility http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=1011&pub=utusan_express&sec=parlimen&pg=pt_04.htm&arc=hive	Empowerment risk – leadership and management	Negative – what happened to religious values?
14 November 2001	PF RM8.965 million fraud case in August: Police after 3 men http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=1114&pub=utusan_malaysia&sec=muka%5Fhadapan&pg=mh_08.htm&arc=hive	Integrity risk – illegal acts	Negative – fraud case still unresolved

Table 57: Armed Forces Fund's News on the net

Document date	Topic of discussion and the web address	Risk category	Positive/Negative?
28 November 1998	AFF sees no reason to reduce its investment in the stock market http://www.utusan.com.my/utusan/archive.asp?y=1998&dt=1128&pub=utusan_express&sec=business&pg=bs_07.htm&arc=hive	Strategic risk – planning	Negative – still going ahead with investments in poor economic conditions
15 March 2000	AFF pays 12% dividend and bonus amounting to RM389.4 million http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=0315&pub=utusan_malaysia&sec=dalam%5Fnegeri&pg=hn_01.htm&arc=hive	Operations risk – efficiency and performance	Positive – improved results
4 April 2000	Contributor: Will we get as what the EPF contributors get? (forum) http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=0404&pub=utusan_malaysia&sec=forum&pg=fo_03.htm&arc=hive	Operations risk – customer satisfaction	Negative – why are we not allowed to withdraw our savings like EPF?
22 November 2000	Reply from AFF: SKOT to contact AFF for superannuation benefits http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=1122&pub=utusan_malaysia&sec=forum&pg=fo_05.htm&arc=hive	Operations risk – customer satisfaction	Positive – shows AFF responds to members' grief
8 December 2000	AFF to top up disability pension for Armed Forces personnel http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=1208&pub=utusan_express&sec=home%5Fnews&pg=hn_06.htm&arc=hive	Operations risk – customer satisfaction	Positive – increase in benefits for members

A summary of the risk categories for the Pilgrims Fund (PF) and the Armed Forces Fund (AFF) during the period of study is shown in Table 58 below:

Table 58: Reported risks categories

Risk categories		PF	AFF	Total
Operations risk	Customer satisfaction	Positive:1 Negative:12 Total:13	Positive:2 Negative:3 Total:5	Positive:3 Negative:15 Total:18
Operations risk	Product development	Positive:0 Negative:9 Total:9	Positive:0 Negative:0 Total:0	Positive:0 Negative:9 Total:9
Operations risk	Efficiency and performance	Positive:10 Negative:0 Total:10	Positive:10 Negative:0 Total:10	Positive:20 Negative:0 Total:20
Empowerment risk	Leadership and management	Positive:0 Negative:1 Total:1	Positive:0 Negative:0 Total:0	Positive:0 Negative:1 Total:1
Empowerment risk	Communications	Positive:1 Negative:0 Total:1	Positive:0 Negative:0 Total:0	Positive:1 Negative:0 Total:1
Integrity risk	Management and employee fraud	Positive:0 Negative:16 Total:16	Positive:0 Negative:0 Total:0	Positive:0 Negative:16 Total:16
Integrity risk	Illegal acts	Positive:2 Negative:8 Total:10	Positive:0 Negative:0 Total:0	Positive:2 Negative:8 Total:10
Integrity risk	Reputation	Positive:19 Negative:38 Total:57	Positive:4 Negative:0 Total:4	Positive:23 Negative:38 Total:61
Strategic risk	Business portfolio	Positive:1 Negative:0 Total:1	Positive:10 Negative:0 Total:10	Positive:11 Negative:0 Total:11
Strategic risk	Pricing	Positive:6 Negative:2 Total:8	Positive:0 Negative:0 Total:0	Positive:6 Negative:2 Total:8
Strategic risk	Planning	Positive:4 Negative:12 Total:16	Positive:1 Negative:1 Total:2	Positive:5 Negative:13 Total:18
Strategic risk	Performance measurement	Positive:1 Negative:0 Total:1	Positive:0 Negative:0 Total:0	Positive:1 Negative:0 Total:1
Total		Positive:45 Negative:98 Total:143	Positive:27 Negative:4 Total:31	Positive:72 Negative:102 Total:174

Table 58 shows that risk reporting on the Pilgrims Fund through the media (143 times over the period 1996 to 2007) was significantly higher than that of the Armed Forces Fund (31 times). Perhaps the most significant finding from Table 58 is the total amount of negative reporting (98 of 143 times or 69%) on the Pilgrims Fund and the corresponding amount (4 of 31 or 13%) in the Armed Forces Fund. It seems that for the Pilgrims Fund, media risk reporting forms a channel for contributors, stakeholders, web bloggers as well as the opposition daily to express their dissatisfaction on the organisation. The majority of these negative reporting seems to concentrate on Islamic risk values, for example, the listing of a Pilgrims Fund subsidiary, TH Plantations (21 of 98 or 21%), raising fears that the savings would be tainted; and the proposal by the Pilgrims Fund to set up a loan fund for pilgrimage (9 of 98 or 9%) which is contradictory to the *Shari'ah* law that one need not borrow to perform the pilgrimage. However, the fears portrayed through the reports seem to subside after the Prime Minister suggested Pilgrims Fund to go ahead with the listing. The nine reports on loan for pilgrimage which started on 15 May 2007 with a report of the Pilgrims Fund proposing loan for pilgrimage was responded to by eight, including contributors and the religious advisor to the Prime Minister, Abdul Hamid Othman, subsided with the last report on 21 May 2007. It seems that the contributors as a policy system within the arena have limited resources to proceed with influencing policies.

This is proven by the fact that although seventeen reports (17 of 143 or 12%) were made by contributors and an economic analyst through the newspaper forum columns only two of these were replied to by the Pilgrims Fund, giving a response rate of 12% (2 of 17). In the case of the Armed Forces Fund, there were three negative (3 of 31 or 10%) forum articles by depositors and the organisation replied to one of these, giving a response rate of 33%. It seems that the Armed Forces Fund was more alert to the hardships faced by the contributors compared to the Pilgrims Fund.

In terms of the categories of risks reported, the Pilgrims Fund seems to have most media attention on its integrity risks specifically related to reputation (57 of 143 or 40%), where for every one positive report, there were two negative reports. The second highest category was strategic risk, i.e. planning (16 of 143 or 11%), where for each positive report, there were three negative reports; ranking the same as integrity risks: management and employee fraud (16 of 143 or 11%), where all the reports were negative.

For the Armed Forces Fund, their media reporting were mainly on the strategic risk: business portfolio (10 of 31 or 32%) and operations risk: efficiency and performance (10 of 31 or 32%), due to their announcements of future investments and dividends respectively through the press. Their negative reporting was from operations risk: customer satisfaction (3 of 31 or 10%) and strategic risk: planning (1 of 31 or 3%).

It is important to note that the above summary of risk reporting by the case organisation has left some categories of risks as per ICAEW (1998) unreported. This apparently means that there are some categories of risks that would be portrayed by the media, whilst others may not be reported at all. It seems that as per arena theory, the different policy systems within the arena of each case organisation utilised resources within the arena to their own interests, for example, to attain more profits and to attain political favour as in the case of the pro-government or pro-opposition newspapers. This act of utilisation of resources depended on how much of the resource was available to be disposed for a particular aim (Renn 1992c).

The above discussed about the media reporting of the case organisations. The following section will discuss the one mechanism for all, i.e. implementing a set of rules and regulations for all types of statutory bodies, i.e. applying an economic-based regulation to all organisations without considering their values.

One mechanism for all

The fourth research objective is to explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations. The first research question asks, what are the reasons for the application of the economic-based regulatory mechanism? The answer to this question is an adaptation of the accounting rules from the private sector, where profit is the motivation and comparability is the aim so that the potential shareholders could decide which companies to invest into. This principle of adaptation focussed on shareholders, not on stakeholders, showing that the emphasis is on economics and not on values. Therefore, the basis of adapting the rules from the private sector itself is pushing the value-based Pilgrims Fund towards an economic-based organisation. This does not coincide with the needs of the stakeholders in Pilgrims Fund, whose emphasis is on values. These needs on values are quite different from the needs of the economic-based shareholders in the private sector. Furthermore, statutory organisations are unique in the sense that each has a function of its own on its establishment and are set up according to certain values that it may require to fulfil. The Pilgrims Fund was set on religious value, contributors expect to save for a holy reason and because the organisation is a monopoly, not being a member is not an option if they want to fulfil their obligation. The Armed Forces Fund was set up for an economic reason, with a goal for social stability. Thus, the purpose of the accounting regulation suits the Armed Forces Fund well because of the similarity in purpose, i.e. to make profits.

The answer to the second research question for the fourth objective; i.e. what are the reporting requirements of the value-based organisation?; will actually depend on the value that is practiced within the organisation. In the Pilgrims Fund, the value is religious, therefore the users of the financial statements would want to see a fulfilment of the religious requirements i.e. a risk reporting tailored to religious values. However, as an answer to the third research question, i.e. are these reporting requirements satisfied by the economic-based regulatory mechanism?; it seems that the one mechanism for all fails to cater for the information needs of every value-based organisation. Perhaps then, the solution is as per Baydoun and Willet 2000 who suggested preparing a value added statement and a current value balance sheet to cater for the information needs of interested parties. If an organisation is willing to cater for the requirements of its community (as in the egalitarian organisation with the egalitarian community) for the good of the community, there is always the possibility of the organisation producing another set of financial statements, but this was not the case in the Pilgrims Fund. The fourth hypothesis states if value-based organisations have to comply with an economic-based reporting regulation, then the reported information will not satisfy the information needs of the users, i.e. different policy systems within the arena, leading to more requests for information. This seems to explain the high amount of negative reporting by the newspapers and there seems to be a risk information gap between the organisation and its audience. There is also alternative reporting by the Pilgrims Fund i.e. the special pull-out magazines on 5 January 2003 and 27 December 2003, the special promotional magazine entitled 'Let's aim for success' and the monthly news bulletins between January to June in the year 2005. These alternative reporting publications communicated mostly the empowerment risk and information processing and technology risk categories which were not disclosed in the Annual Financial Statements.

On the other hand, this is not the case for the economic-based Armed Forces Fund which had much lesser reporting by the newspapers, suggesting there is minimal risk information gap between the organisation and its audience. The lack of such reporting by the Armed Forces Fund is apparently due to the fact that the requirements of the economic-based reporting regulation is equivalent to the requirements of the organisation. This seems to confirm the hierarchist rationality of cultural theory, where the lower members the community left the management of funds to the experts.

Summary

This chapter discussed about the social arena of policy risk debates and explored the different policy systems in the arena, their role and impact on the decision making. Different organisations will have different policy systems in the arena. The policy systems interrelate to create forces within the arena that could enforce or delay organisational policies. For the Pilgrims Fund, its objectives qualify it as a strongly egalitarian organisation. In its arena, the relationship between the experts, the opposition party, the rule enforcers, the general public and the members are very strong. For the Armed Forces Fund, its objectives qualify it as a hierarchist society. In its arena, there is lesser relationship between the members and the other forces in the arena. As per cultural theory therefore, the Pilgrims Fund will have issues in its operations, i.e. depicted by higher risk reporting needs of its arena and the difficulty to compare its statements especially due to the use of different terms. The Armed Forces Fund, a hierarchist organisation, operating with hierarchist objectives in a hierarchist environment seems to operate quite well. Therefore, in this aspect there is an extension to culture theory that applies to the case organisations in Malaysia.

CHAPTER 7 ANALYSIS OF FINDINGS

Introduction

The previous three chapters discussed the empirical findings within the case organisations and that of its external environment. This chapter will analyse the empirical findings on the Pilgrims Fund and the Armed Forces Fund based on the literature review. This chapter will be divided into four sections, three of which are similar to the literature review chapter, i.e. firstly, the stewardship-accounting role of management and risk; secondly, risk perception, including the social arena metaphor of risk debates (Renn 1992c); and thirdly, risk reporting. The last section is an approach to critically analyse the findings.

Stewardship-accounting role of management, 'accountingisation' and risk

The stewardship-accounting role of management in the Pilgrims Fund has significantly changed due to changes in its legislation. According to the repealed incorporating Act, i.e. the Pilgrims Management and Fund Act 1969, the Chairman, who was also the Director-General, was appointed by the Monarch from persons with profound religious background and had a wide experience of the Holy Land, to manage the savings of the pilgrims strictly according to *Shari'ah* law. This included maintaining records of transactions according to *Shari'ah* law, where the income from *Shari'ah*-based investments were recognised on a cash basis and the income from dividends were accounted for when received. Through the imposition of the new incorporating Act, i.e. the Pilgrims Fund Act 1995, modifications in reporting regulations by the Treasury and the Public Service Department, and later the application of professional reporting rules, i.e. the Financial Reporting Standards, issued by the Malaysian Accounting Standards Board; the power to appoint the Chairman shifted from the Monarch to the Minister-in-charge of Religious Affairs. Similarly, the recording of accounting information shifted from being based on *Shari'ah* law to comply with the mandatory professional accounting standards.

The 'accountingisation' of reporting (Power & Laughlin 1992; Broadbent & Laughlin 1997; Power 1997; Lapsley 1998; Thomson & Veitch 2000; Power, Laughlin & Cooper 2003) was based on professional accounting standards adopted from the private sector, which upheld the profit motive. It seems that the Pilgrims Fund that was earlier set up with religious objectives have gradually moved towards complying with accounting rules and regulations such that the organisation apparently seems to be both economic-based and profit-oriented; deviating from its original purposes of existence.

The effect of 'accountingisation' is such that the Pilgrims Fund is subjected to higher degree of risks compared to its profit-based counterparts. In terms of reporting, the more they proposed to be value-based, the more they are scrutinised. The Pilgrims Fund has its own audience which expects it to conform to its religious values. 'Accountingisation' of the organisation results in economic or profit-based reporting, a change from what is expected from the organisation by its stakeholders. The incompatibility of the economic-based reporting regulations with the demand on value-based reporting, specifically religious-based reporting, led to reports that do not conform to the audience's expectations, leading to the requirement of more information through means which the audience can access and by which they can receive answers from the organisation; for example through the forums in the local papers.

This research found that financial reports produced according to the profit-motivated accounting standards still had limitations on reporting value-based risks. The contributors requested more information, reflected in media throughout the years 1996 to 2007. This is similar to the findings of surveys on institutional investors which showed a strong demand for better corporate risk disclosure to improve investment decisions (Solomon, Solomon, Norton & Joseph 2000). In the Pilgrims Fund the contributors' plight is even worse, since the government set up the Pilgrims Fund to be a monopoly, thus the only channel to perform the pilgrimage would be through the Pilgrims Fund. The investors were left with no choice, and realising their belief is threatened, made known their grievances. Findings on risk reporting within the Annual Financial Statements of the Pilgrims Fund showed lack of coherence in the risk narratives depicted through the non-uniform terminologies used by the Pilgrims Fund in its financial statements from 1996 to 2003 similar to studies by Beretta and Bozzolan (2004) and Linsley and Shrives (2006) implying that there was a risk information gap which existed, which consequently made it very difficult for stakeholders to assess the risk profile of the organisation.

In the Armed Forces Fund, there have been no major changes to the incorporating Act. The Chairman has always been appointed by the Minister. Since the ex-Chairman was also in the Non-Independent Non-Executive Chairman of a group of companies listed on the Kuala Lumpur Stock Exchange Main Board, he has exercised both the military work ethics and the business expertise he gained to the Armed Forces Fund. In the Armed Forces Fund, 'accountingisation' does not seem to be an issue as the organisation was set up for the economic benefits of the contributors thus there is no question of steering "the organisation into a new form of behaviour" (Broadbent & Laughlin 2005, p. 19) because the objectives of the organisation is the economic benefits of its contributors. It seems that the contributors trusted the investment choices of the management to generate dividends and bonuses confirming the hiearchist rationality of the cultural theory (Thompson, Ellis & Wildavsky 1990). The management, through successive high annual bonuses and dividends, has apparently satisfied the economic requirements of the contributors, which could explain the lesser reporting in the media.

The next section will analyse the risk perceptions according to cultural theory further.

Risk perception

Findings from the interviews and the questionnaires supported Weber and Hsee (1998, p. 1215), who stated that many different factors affect risk perception, for example, the outcome of previous decisions, aspiration levels, trust, expectations, and loss functions for outcomes that deviate from expectations. It seems that through the changes in the emphasis of top management expertise of the Pilgrims Fund, from religious expert to Muslim business experts, the government through the Minister-in-charge was trying to instil at least two of the four key dimensions of trust; firstly, perceptions of commitment, because the top management are Muslims; and secondly competence, because the top management are business experts (Kasperson, Golding & Tuler 1992). In the Armed Forces Fund, the Chairman has always been the Ex-

Chief of the Armed Forces. The installation of the Ex-Chief of the Armed Forces as the Chairman of the Armed Forces Fund extends the application of the hierarchist rationality apparent in the Armed Forces into the Armed Forces Fund. The members' risk perceptions on their Chief stay even when he has retired, due to his new appointment. Due to the fact that there has been no instance where the expectations were violated, the contributors trust their top management (Kasperson 1992).

It was found that perception of risks is influenced by a series of perceived properties of the risk source or the risk situation (Johnson & Tversky 1984; Slovic, Fischhoff & Lichtenstein 1981; in Renn 1992a). Major influential factors are the perception of dread with respect to the possible consequences; the conviction of having personal control over the magnitude or probability of the risk; the familiarity with the risk; the perception of equitable sharing of both benefits and risks; and the potential to blame a person or institution responsible for the creation of a risky situation (Renn 1992a). This was proven by the concern shown by the contributors who wrote to the newspapers on the possible tainting of savings due to listing of TH Plantations, a subsidiary of the Pilgrims Fund and the Pilgrims Fund's loan for pilgrimage proposal, since according to Islam they are accountable to God for what they did or did not do. According to *Shari'ah* law, if they do not resist a wrongdoing, they are regarded as an accomplice to the wrongdoing and will be held responsible for any possible consequences. Although most of those in the social arena of the Pilgrim's Fund are Muslims, some actors in the social arena (such as experts) believe they have more 'religious expertise' compared to the Pilgrims Fund's top management and needed to clarify the situation. The low response given by the Pilgrims Fund to the newspaper reports (only 2 of 17 were answered, i.e. 12%) seems to portray that they take little heed in what others think of them (corresponding to the individualist rationality of the ex-Minister-in-charge, who claimed that he was not to be blamed[85]).

[85] Minister: Do not fault me for incident leading to PF losses. http://www.utusan.com.my/utusan/archive.asp?y=2002&dt=0401&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_04.htm

The situation is different in the Armed Forces Fund, whereby of the 3 reports in the news, one was answered, i.e. 33%. This is understandable, given the fact that the Armed Forces Fund was established to take care of the economic standing of the retired armed forces personnel. In 1973, Malaysia was still facing the war of the running dogs, a war with the communists. It seems at that time, the setting up of the Armed Forces Fund was deemed necessary by the government because the retired armed forces personnel were easy target for communists seeking new recruits. The communists see them as the best new recruits because they have been officially trained by the government and would be especially useful for the communists' purposes. The Armed Forces Fund serves a two-pronged purpose; to give the retirees economic security, therefore they do not see the need to take up offers from the communists, and at the same time provide national security for the country. This is another reason why the Armed Forces Fund takes priority in the affairs of all its retired personnel and attends to their grievances immediately. In the Armed Forces Fund, due to the regimental discipline, members do not air their grievances and respectfully leave decision making to the management. They typically belong to the hierarchist rationality, trusting in more effective management (Adams 1999). This is evident by the significantly lower number of risk reporting in the media.

The following section will discuss objective against subjective views of risks.

Objective versus subjective views of risk

The literature was diverse from being very objective to being very subjective with discussions ranging between both. Within the Pilgrims Fund, it was found that there was insignificant quantification of risks. The Branch Operations Manager even stated that the Pilgrims Fund is in the process of setting up its risk management committee although the organisation chart in the Annual Financial Statements clearly showed the existence of a risk management committee. This suggests a low internal visibility within the Pilgrims Fund through a lack of communication within it, since although the information was reported in the Annual Financial Statements prepared for those external to the organisation, those internal to the organisation were not properly told of the existence of such a committee. This hampers risk quantification as the mathematical quantification of risk requires identification and accessibility to all visible and known information that is possibly available surrounding the circumstances (Lee 1981), transparent or otherwise, and is often made with the prior assumption that other factors remain constant. In the Armed Forces Fund, the mathematical quantification of risks was made by engaging fund managers who professionally manage the investments. From the interview with the Risk Manager, the existence of a Risk Management Department within the Armed Forces Fund was made transparent through the requirement that the Risk Manager be present in every managerial meeting within the Armed Forces Fund and the top management requirement that she should engage in the risk quantification of every department.

In reality, given the limited accessibility to information, risk reduction is the best alternative (Renn 1992a). The appointment of a new investment panel just one month after the appointment of the Chairman in August 2001 in the Pilgrims Fund, made possible the calculation of probability of profits or loss risks particularly in the shares markets as well as investments by experts. However, this new investment panel consists of investment and business experts who are hired by the Pilgrims Fund and are distinct from the people affected by the event (i.e. contributors to the Pilgrims Fund). Since the party investing the funds is not the same as the party providing the fund, there will be value-based concerns of interested parties, which in a religious-based organisation, is apparently not quantifiable in monetary terms. On the other hand, in the Armed Forces Fund, there seems to be complete agreement with what the fund managers are doing. The contributors seem happy to leave the investment decisions in the hands of the fund managers, in line with the hierarchist rationality (Douglas 1966 and Thompson, Ellis & Wildavsky 1990) especially when the return from investments over the same period proved to be more than twice that given by the Pilgrims Fund.

Proponents of subjective risks argue that quantitative research is not sufficient to conclude on the feelings and behaviour of the subjects (Renn 1992a). Often the findings are superficial and inadequate since field researches are not normally conducted by the social scientists themselves and thus they do not have a first-hand experience of the non-quantitative responses. Thus the scientists do not understand the social context in which the research was done. Society does not treat low-consequence/high-probability hazards and high-consequence/low-probability hazards the same as assumed (Kasperson 1992). This is especially proven in the case of the Pilgrims Fund where the audience is upholding religious values not quantifiable in monetary terms. On the other hand, in the Armed Forces Fund there seems to be no issues raised on subjective risks. The lack of issues on subjective risks may be due to the fact that as hierarchists, i.e. the contributors know their place (Thompson, Ellis & Wildavsky 1990; Adams 1995).

Proponents of the subjective school suggest that decision making is affected by attitudes towards risk based on the decision maker's own interpretation of the situation or event (Adams 1995; Holling 1986, 1979; Douglas & Wildavsky 1982), assuming the pre-existence of preferences (in the case of the Pilgrims Fund these preferences will have connotations to religion, whilst in the Armed Forces Fund, preferences will be based on economic benefits) as providing a motivation for decision makers as individuals as well as social organisations to select definite courses of action (Schwarz & Thompson 1990). This interpretation differs from one person to another and varies according to a number of factors, of which culture is considered the main determining factor (Douglas & Wildavsky 1982).

In terms of the concepts of risk (Renn 1992a), in the Pilgrims Fund, the basis for answering the three guiding questions (First, how can we specify or measure uncertainties?; secondly, what are the undesirable outcomes?; thirdly, what is the underlying concept of reality?) is religion; and by using *Shari'ah* law. Islam states that when one does not have the expertise, one should seek the help of an expert or experts in determining the course of action to be followed, whilst maintaining *Shari'ah* law. Thus the Pilgrims Fund has appointed business experts to the investment panel. In the Armed Forces Fund, the basis is economic, i.e. as long as the returns are relatively high, the contributors are satisfied, thus showing no complaints.

Subjectively, risk is said to be an interactive phenomenon with each party having their own risk "thermostat"; a balancing behaviour between the propensity to take risks based on rewards and the perceived danger of "accidents" (Adams 1995). However, being interactive, the main difficulty is that those who perceive are different from those who enjoy the benefits of the reward, who are different from those who bear the costs of the accident. Therefore, the only person who can justifiably calculate the compensation required is the loser himself, although many people would resist the idea that such losses could be translated into cash at all (Adams 1995). Understanding that the contributors to the Pilgrims Funds are saving for religious aims, they may endure savings without gains to a certain extent, but Islam states that one should strive for the best, and therefore it is the duty of the Pilgrims Fund to provide the best returns they could to the contributors, as an organisation should be able to explain that the action taken in response to an event is a consequent of their interpretation based on prior beliefs and experiences (Schwarz & Thompson 1990). In the Armed Forces Fund, the minimum dissatisfaction within the Armed Forces Fund seems to show that there is a general satisfaction on the returns they are getting from the Fund.

In reality, not all of the information required for the individual or organisational decision making is available, adequate or properly communicated for several reasons such as non-disclosure, inaccessibility, non-transparency, non-regulation or invisibility, thus leading to uncertainties (Renn 1992a). Often judgements about potential risks are made on the basis of inadequate substantiation (Adams 1995). It was found that in these situations, decision makers assume that nature behaves in certain ways (Schwarz & Thompson 1990; Holling 1986, 1979) resulting in distinctive management styles for each prior conception of nature (Adams 1995). Although the Pilgrims Fund is religious-based and is therefore classified as an egalitarian organisation as per Douglas 2005; Adams 1995; Renn 1992a and Schwarz and Thompson 1990, the interviews with the managers (for example, "When the Chairman is not present, the meeting will be chaired by another member of the Board") and a media report[86] revealed that as at 2002, the top management were individualists. Therefore, the organisation seems to have issues in its operations.

86 http://utusan.com.my/utusan/archive.asp?y=2002&dt=0319&pub=utusan_malaysia&sec=dalam%5Fnegeri&pg=dn_09.htm&arc=hive 20/10/2007

The actions of the ex-Minister who delegated the responsibility to his two General Managers later accused of misleading him were very good proof that he was an individualist. In the Armed Forces Fund, it seems that the management style closely adapts that of the private sector, engaging in profitable investments, to increase profits for the organisation. The management style is very pro-active, for instance, during the interview with the Risk Manager it was found that the Chairman prompted a risk management study by consultants on the organisation and invited the consultant to join the Armed Forces Fund forming its Risk Department much earlier than calls to form risk committees were made by the government.

Lupton (1999) discussed the topic of risk and subjectivity stressing that the general public often have different perspectives of risk from the experts. She stated that this results not from ignorance or inability to understand probabilities, but suggested that the phenomenon of risk is "a production of varying knowledge about the world." This could be applied to the case of the Pilgrims Fund where the general public may not have an expert's knowledge on investments. However, it should be noted that the general public may be informed by religious or economic experts on the consequences that may result from a particular decision making by the firm. The extent of the information distribution is questionable, due to the lack of resources within the policy systems within the arena. In the Armed Forces Fund it seems that the contributors attitude is that of a low ranking hierarchist, i.e. the experts know what they are doing (Douglas 2005; Adams 1995; Renn 1992 and Schwarz & Thompson 1990).

The above discussion on objective and subjective views of risks implied the varied range by which risks could be interpreted. The following section will explore some major social perspectives of risks in relation to both the Pilgrims Fund and the Armed Forces Fund.

Some major sociological perspectives of risk

This section relates some of the major sociological perspectives on risk, including perspectives discussed by Renn (1992a), the attribution theory, the social amplification of risk framework and the social arena theory to the findings from the Pilgrims Fund.

Rational actor concept

In terms of the Pilgrims Fund the rational actor concept (Stallings 1987; Dawes 1988) would place emphasis on the organisation or individual actors and does not take into consideration other factors such as the impact of communication distortion or the protective behaviour/defence action of mobilizing the political actions, i.e. action and reaction of the social actors. The rational actor concept does not portray the possible issues resulting from contradicting behaviour of different individuals or the social actors, should they act by selecting the best means to accomplish goals; and the concept does not suggest a remedy to the possible problems. The deliberate intention to promote interest is partly applicable in the research arena but the individuals or social groups have to comply with procedures with limiting factor i.e. resources. The concept which says that the social groups and institutions experience a social conflict if the interests of one group conflict with the interests of another group seems to apply for this research. Similarly, the concept which states that if members of one party perceive risks as a threat to their interests, they will mobilize political actions to reduce or mitigate the risk, also seems to apply for the Pilgrims Fund. However, the rational actor concept does not emphasise on risk reporting or any aspect of communication, which is important for this study and therefore it would not be able to fully portray the social arena of the case organisations.

Social mobilisation theory

The social mobilisation theory (McCarthy & Zald 1977; Klandermanns 1984; Watts 1987; McAdam, McCarthy & Zald 1988; Gamson 1990) focuses firstly on identifying the circumstances that motivate individuals to take actions and secondly on identifying the structural conditions necessary for social groups to succeed. In the Pilgrims Fund, the payoff is not the reason for participation, but it is the religious motive of the contributors to perform pilgrimage. It is also found that although in the Armed Forces Fund payoff may not be the main reason for participation, it does come as an added benefit to the contributors[87]. Therefore, although the first focus of this theory represents an area in this research, the social mobilization theory did not provide for the communication linkages that exist between the different policy systems and the interactions between the different policy systems. Thus this theory does not seem sufficient to explain the scenario of this research.

Organisational theory

In the Pilgrims Fund, organisational theory (Perrow 1984; Clarke 1989) is applicable because the structural aspects of the organisation does produce a higher risk for the public due to routinisation of tasks and diffusion of responsibility, increasing the probability of operational errors or inadequate control (Freudenburg 1989). However, it seems less applicable to the Armed Forces Fund which necessitated regular training for employees and instituted comprehensive internal control[88]. This theory assumes complacency in the individuals within the organisation but there is no suggestion of efforts to remedy the risk such as job rotation, or the impact of strict quality control on the products. In this research it was found that both routinisation of tasks and diffusion of responsibility were not adequate in explaining why the case organisations behave the way that they do. By restricting the causes of the increase in the probability of operational errors or inadequate control to the organisation through the routinisation of tasks and diffusion of responsibility of the individuals, this theory does not seem to appreciate other factors that may be present and have compounded the effect of the operational errors or inadequate control such as the attitudes of the individuals towards risks. It does not provide for what are the consequences of the organisation's interactions with its outside environment, i.e. how it responds to its social arena. It seems that this theory would only partially explain the organisations in this study.

[87] From the interviews conducted, the main reasons include patriotic feelings and discipline.
[88] From the interviews, it was found that the Armed Forces Fund specified that in a year every employee must attend training for a specified minimum period of time, determined by the management. The internal control procedures require communication to be certified by the receiver as proof that information was communicated. Attention to details was also apparent when mobile phones are banned in meetings, due to the fact that mobiles could be used as spying devices.

Systems theory

Systems theory (Luhmann 1986, 1990; Stallings, 1987) focuses on structural factors and "spans *real* and *constructed* realities" (Renn 1992a, p. 70), and seems to be the theory that places importance on communication. In this research, risk issues evolve in an evolutionary process in which policy systems and the case organisations organise their knowledge about their natural and social environment and shares this knowledge with other social systems through communication (Luhmann 1986, 1990; Stallings 1987). The selection of the system of knowledge is governed by structurally determined criteria, and this is found to apply to both the Pilgrims Fund and the Armed Forces Fund. However, this theory mostly encompasses the macro system scenario but do not consider the interactions in the different individual systems. Thus, it seems not quite applicable to this research scenario as in this research, the case organisations each operate within an environment with other policy systems, and because of the communication between them, contributes to the decision making of the case organisations.

Neo-Marxist and critical theory

The Neo-Marxist and critical theory (Habermas 1984-87; Forester 1985; Dombrowski 1987) focuses on the empowerment of groups and communities to enable them to determine their own acceptable risk level. It states that the risk experiences by different social groups reflect the class structure of society and indicate the inequities in the distribution of power and social influence. These inequities seem to apply in the Pilgrims Fund, although not up to the extent that they have to suffer without protests. Due to the members originating from different social and economic status, the findings showed that they do make their voices heard through the media. In the Armed Forces Fund, the contributors seem to assume that the top management know what they were doing and the findings from the media reporting apparently shows very few cases of dissatisfaction. Therefore, this theory does not represent the findings of the research because the policy systems do not seem to be empowered by others to determine their acceptable level of risks. They determine it according to their belief and experiences.

Social constructionist concept

The application of the social constructionist concept (Appelbaum 1977; Wynne 1983; Johnson and Covello 1987; Rayner 1987; Bradbury 1989; Dietz, Stern & Rycroft 1989; Gamson & Modigliani 1989) to this research is one of the most appropriate, but it does not adequately explain the different interpretations on reality itself and therefore does not fully provide a framework for the study. Both the Pilgrims Fund and the Armed Forces Fund, for example, was not created by the participating individuals but by the government; although reality may be culminated by the people acting on their interpretations and their knowledge of it.

Attribution theory

The attribution theory (Heider 1958; Kelley 1967; Jones, Worchel, Ooethals & Grumet 1971; Jones & Wortman 1973; Ross 1977 and Ross & Fletcher 1985) is concerned with the ways in which individuals attributes causes to events and there are proof that it was used as a form of escapism from the risk of being blamed for a wrongdoing or error in the Pilgrims Fund, when the cause of the wrongdoing or error is attributed to external factors, for example, to the economic crises; whereas internal attribution attributes the cause of the wrongdoing or error to the management, for example, when the Minister-in-charge stated that he should not be blamed for approving the investments[89] during his tenure since he was wrongly advised to do so by the two senior managers who were later accused and found guilty of misadvising the Minister. The attribution theory may be applied by individuals with position of power on the receiving end of blame for wrongdoings of predecessors. This escapism however, opens to interpretation the perception towards risk of that individual itself; if one assumes a position must one accept all blame due to that position?

In the Armed Forces Fund, there is no evidence of application of the attribution theory. The top management has not been known to attribute errors to subordinates. Their approach is group performance and unity instead of divide.

[89] http://www.utusan.com.my/utusan/archive.asp?y=2002&dt=0401&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_04.htm 12/6/04

Social amplification of risk framework

The social amplification of risk framework (Kasperson 1992), describes how both social and individual factors act to amplify or dampen perceptions of risk and through a rippling effect create secondary effects such as stigmatisation of technologies, economic losses or regulatory impacts (Kasperson, Renn, Slovic, Brown, Emel, Goble, Kasperson & Patrick 1988). The framework focuses attention to the risk communication and amplification process. There is evidence of amplification through the rippling effect in the environment of the Pilgrims Fund, when multiple news coverage on the listing of TH Plantations, a subsidiary of the Pilgrims Fund prompted a higher authority, i.e. the Prime Minister to suggest that the Pilgrims Fund go ahead with the listing. This theory is also applicable for a small area in this research as there are communication channels which are either under indirect control by the ruling party, and under direct control of the opposition party and there is a possibility of amplification or dampening by the media within the environment. However, the social amplification of risks does not go on to explain how the organisations would react to the risk amplification. Thus it is not sufficient in describing the findings of this research.

Risk and culture

Evidence from the case organisations suggests that there is an influence of culture on how people react to risks, i.e. culture influences the actions taken by the subjects of the study, and there has been clear links between culture and accounting or risk reporting where culture was equated to, for example, religious belief (Gambling & Karim 1986; Hamid, Craig & Clark 1993; Maali, Casson & Napier 2006) and ethnic background (Haniffa 2001; Haniffa & Cooke 2005).

Islamic accounting, risk and culture

Gambling and Karim (1986, p. 39) stated:

> "The collective personalities or mazeways of the individual people who comprise a group or society, form their culture, and accounting theory is part of the personality and hence part of the culture. If the individuals are Muslims, their personalities are Islamic and their culture is Islamic. Therefore their

accounting theory is Islamic and encompasses the *Shari'ah* along with much else."

The above statement was true during the early days of the Pilgrims Fund, when decisions were based on religious grounds, i.e. *Shari'ah* law. With the coming into force of the new Act, there is a shift from the *Shari'ah* law to comply with more profit-oriented purposes. In Islam, *Shari'ah law* covers economic, social and legal aspects of life, as well as spiritual matters. The economic law requires firstly, keeping of proper accounts (*Al-Qur'an* 2:282), secondly, the payment of *Zakat*, a sum set aside for the economy, including relief of the poor (*Al-Qur'an* 9:60) and thirdly, the condemnation of usury, interpreted as *any* form of taking advantage of the poor and ignorant, which is commonly interpreted as the charging of interest (Gambling & Karim 1986, pp. 40-42).

In the Pilgrims Fund, firstly, although there is keeping of accounts, it cannot be deemed to be kept in the 'proper' Islamic way as it was prepared to fulfil the professional regulatory requirements which emphasise factors different from that emphasized in Islamic reporting. Secondly, although there is payment of *Zakat*, the sources of *Zakat* and to whom it was distributed was not reported. Thirdly, in the Pilgrims Fund, even though there is no reference to the term 'usury', the charges imposed on the contributors were quite unacceptable, for example, the RM2 charged if one was depositing coins instead of paper money, and the RM90 charged to process their pilgrimage registration and RM3 charged for a health record book. In the Armed Forces Fund, the reporting complies with the same regulatory principles as in the Pilgrims Fund. There was minimal, if any, expected disclosures as per Maali, Casson and Napier 2006. Payments of *Zakat* were not stated, but in its place was payment of tax. There were no charges imposed on contributors for processing fees. The Armed Forces Fund did not proclaim anywhere in its statements that it follows *Shari'ah* principles in its reporting and there is no such evidence, but its majority Muslim contributors did not seem to mind.

It is clear that Islam imposes a need for an accounting system which is adequate to provide the required tax-base on which *Zakat* should be paid but this was not shown in the reports produced by the Pilgrims Fund although there were reports of the organisation giving funds for charity and a wheelchair for a pilgrim who was involved in an accident in the Holy Land, rendering him disabled[90]. There is no reference to Islamic reporting given when the Armed Forces Fund disclosed money and benefits given as charity[91].

In the Pilgrims Fund, since it is regarded as an Islamic organisation and expressly states that it follows *Shari'ah* law in its notes to the accounts, it should be prepared to face a series of challenges which are quite different from the existing profit-based system. There are more value-based risks involving the individual and the organisation since in Islam, the individual is not just accountable to the human society but also beyond, i.e. to God (Haniffa 2001, p. 9). Since the Armed Forces Fund did not proclaim adherence to *Shari'ah* law in its reporting, it was not subjected to religion-related scrutiny as in the Pilgrims Fund.

Although Hamid, Craig and Clark (1993) stressed that important business ethics in Islam flow from the practice of religion, not from the codes imposed by the professional associations, the reverse seems to apply to the Pilgrims Fund, and this perhaps was the factor that motivates the actors, experts and stakeholders to fight for their cause by making their voices heard. This sets the case for an additional set of risks for the Pilgrims Fund, i.e. risk of non-compliance with the *Al-Qur'an,* although the essence of Islamic banking is to use money for a productive purpose, for example, in the form of a partnership, where the provider of capital and the entrepreneur shares in the financial risks and rewards of the venture (Temple 1992).

Some *Shari'ah* law on the definition of an allowable, non-speculative investment are open to interpretation. As a result, all Islamic banks have religious committees who may disagree on the acceptability of certain issues themselves. This is not the case for the Pilgrims Fund, which, instead relies on the *Shari'ah* Committee of the Islamic Bank in Malaysia for religious references.

Baydoun and Willet (2000) identified two important criteria for Islamic accounting firstly, a form of social accountability and secondly, a rule of full disclosure. They

[90] Monthly news bulletin, April 2005 page 7.
[91] Charity events are highlighted from time to time in their website, www.ltat.org.my.

suggested that the Islamic Corporate Reports (ICRs) should contain a value-added statement as the focus of performance of the accounting entity and a current value balance sheet in addition to the historic cost balance sheet. These, they said, would better serve the needs of users wishing to act in accordance with the Islamic code. However, the Pilgrims Fund did not produce any of the two statements recommended by Baydoun and Willet (2000). This is quite ironic, considering the fact that they offered themselves for scrutiny when they voluntarily submitted entry to the Prime Minister quality awards but have not voluntarily prepared the accounts required by *Shari'ah* law.

Maali, Casson and Napier (2006) conducted a study in which they developed a benchmark set of thirty items of social disclosures appropriate to Islamic banks according to the *Shari'ah law* and applied these to the actual social disclosures contained in the Annual Reports of twenty-nine Islamic banks in sixteen countries. This research adapts and integrates Maali, Casson and Napier's (2006) benchmark of social disclosures appropriate to Islamic banks to the risk disclosure categories (ICAEW 1998) to highlight the risk disclosure categories appropriate to the Islamic banks which should be applicable to the Pilgrims Fund, as an Islamic financial organisation.

It was found that the expected disclosure requirements were mostly not complied with by the Pilgrims Fund as a financial institution. In the few instances when there was mention of the expected disclosures, the nature of the mention has been too general such as not to qualify as sufficient disclosure. This may be due to the fact that "negative corporate image can have a serious economic implication for organisations." (Buhr & Freedman 2001, p. 294). This practice is clearly against the principles of full disclosure and accountability of individuals and organisations to God and the Islamic community. Islamic financial institutions should disclose all information deemed important from the Islamic perspective for people in the societies they operate, and not just the information that would help in constructing a beautiful Islamic image. Therefore, similar to the findings of Maali, Casson and Napier (2006) the Pilgrims Fund falls significantly short of expectations since its disclosures have not met the expectations of the Islamic community.

The above subsection discussed on the Islamic accounting, risks and culture. The next section will discuss the two main theories most relevant to this research, i.e. cultural theory and the social arena metaphor of risk debates.

Cultural theory

Cultural theory seems to be the theory that best encompasses the issues within the Pilgrims Fund. Since this study involves organisations within similar cultural settings, involving individuals with the same ethnicity and religion, the variant of cultural theory that is employed will be the one proposed by Douglas (1966) and further developed by Thompson, Ellis and Wildavsky (1990).

Douglas and Wildavsky's (1982) theme that risk is "culturally constructed" was proven in the findings of this study. Respondents within the Pilgrims Fund mainly conform to the egalitarian (critical, with a view of nature ephemeral, having egalitarian bounded group) and hierarchist (procedural, with a view of nature perverse/tolerant, having nested bounded groups) rationalities (Schwarz & Thompson 1990). On the other hand, respondents within the Armed Forces Fund conform to the hierarchist principle, and in the hierarchist government environment where the imposition of rules was mandatory, the hierarchist organisation responded quite well by producing reports that meets the Auditor-General's standards and was comparable through the years 1996 to 2003.

Cultural theory is also applicable to the individual policy systems within this study because it assigns risk rationality to each of them, and by understanding their risk rationality, it should be easier to identify how they would react to a situation. Therefore, cultural theory may be able to explain the risk rationality of individuals within the organisation, as well as the risk rationality of policy systems external to the organisation, i.e. within its social arena.

Arguments against cultural theory as a comprehensive theory of risk

Renn (1992a, pp. 74-5) questioned the applicability of cultural theory as an "exclusive and comprehensive theory of risk" based on several reasons one in which he quoted Johnson's (1987) proposal that individuals may belong to different organisations and groups with different cultural profiles. Although this does not apply in the Armed Forces Fund, it is a valid argument as in the Pilgrims Fund it was found that there was an individualist, for example, the Human Resource Manager and hierarchists (from the findings of the questionnaires) working in the Pilgrims Fund, which is an egalitarian organisation. However, it is the fact that people within the organisation has different rationalities that justifies cultural theory, i.e. if there is no commonality of rationalities within the organisation, there will be issues in the organisation. This notes the point that cultural theory does not only cover the case of organisations having only a single rationality but it extends to cases with multiple rationalities as well.

Social arena metaphor of risk debates

The social arena theory (Renn 1992c) encompasses the scenario within which the Pilgrim Fund operates. According to the social arena theory, the Pilgrims Fund operates in an environment consisting of different policy systems such as actors, namely the board of directors, the top management, the founding father, the expert, the Auditor-General and the Public Accounts Committee[92]; the stakeholder, namely the contributors; the general public; rule enforcers, namely the Minister-in-charge; issue amplifiers namely, the pro-government news, anti-government news and the web blogs; social groups, namely the members of the opposition party; and political institutions, namely the ruling government; debating risks within the arena and all have an impact on the policy making of the organisation. It is this interaction within the different policy systems, and the differing degree of their control on the values and how they influence the interaction within the environment which suggests that this is the theory that could most appropriately describe the scenario in this research. See Figures 8 and 9 for a depiction of the social arena of risk debates for the Pilgrims Fund and the Armed Forces Fund respectively. Note the number of arrows between the issue amplifier and the general public. This high number was due to reasons of, for example, high profit in reporting, i.e. there is great continuing demand for news, therefore, the newspapers were sold out, bringing profits to the issue amplifiers.

[92] In the figure, the experts, Auditor-General and the Public Accounts Committee were all in one circle, for simplicity. They do have different roles, interacting with each other and the others in the arena.

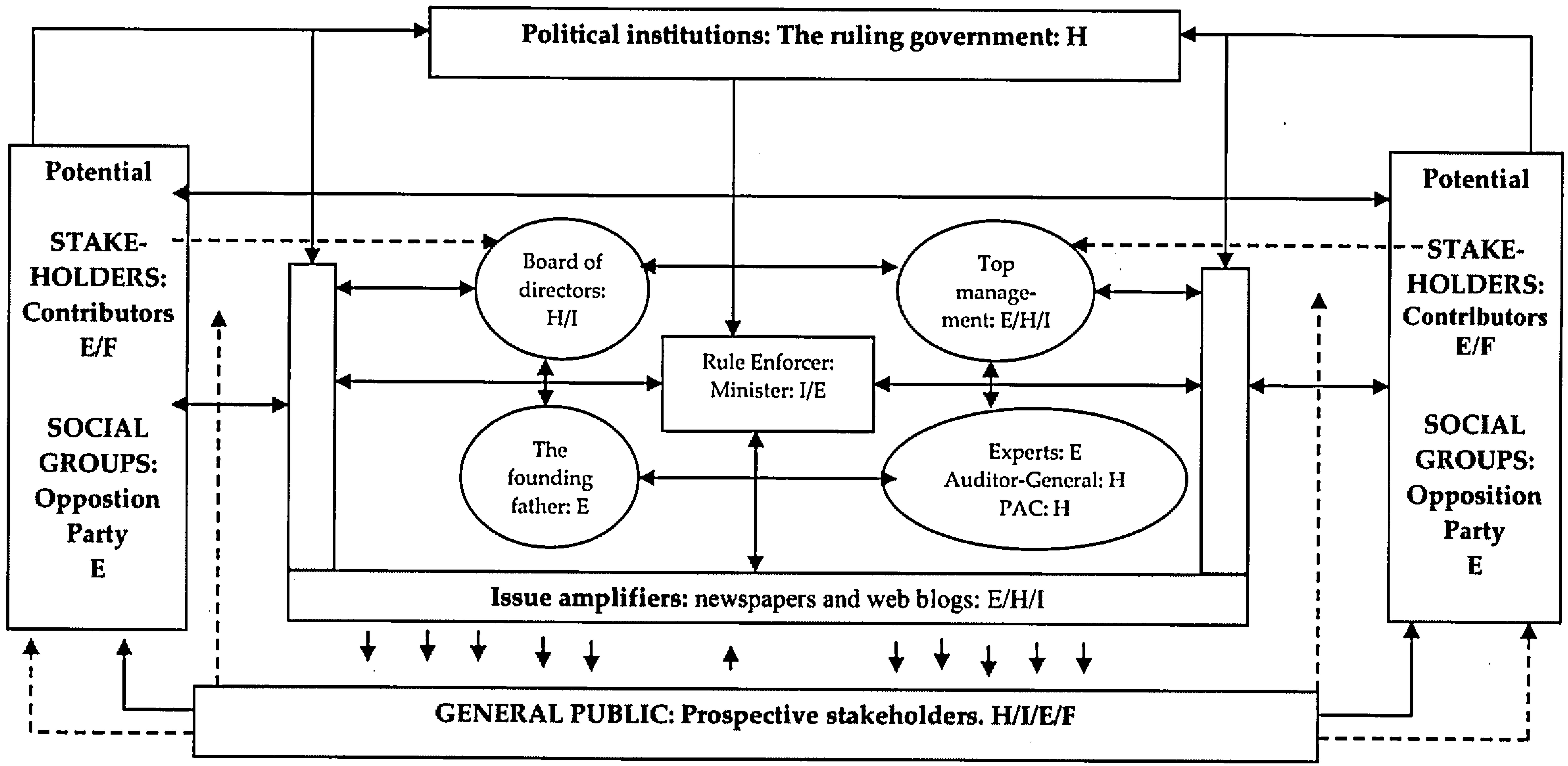


Figure 8: Graphical representation of the arena metaphor of the Pilgrims Fund

Note: Solid arrows show communication flow; dotted arrows the direction of social mobilization. (H=Hierarchist, I=Individualist, E=Egalitarian, F=Fatalist)
Source: Renn (1992c, p. 183).

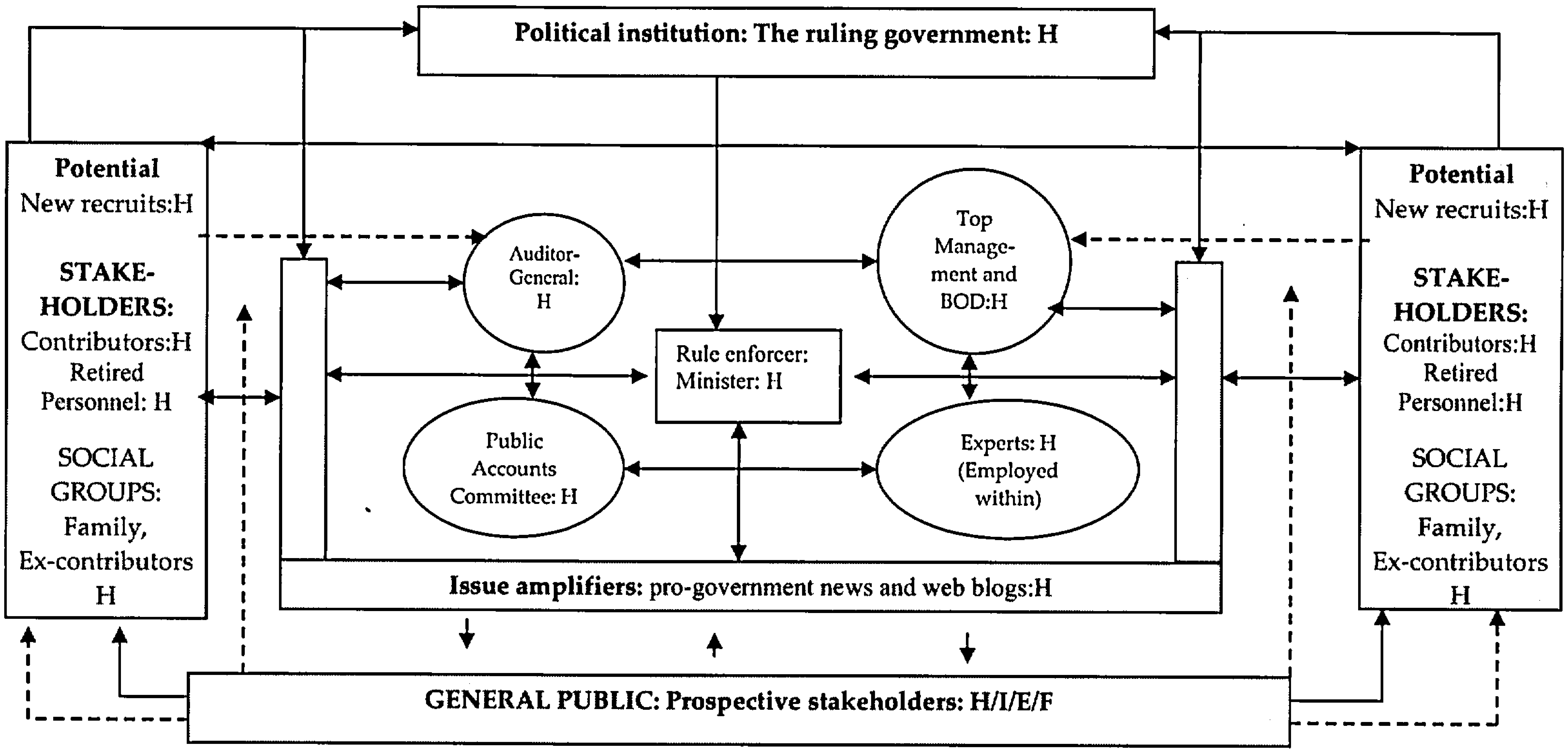


Figure 9: Graphical representation of the arena metaphor of the Armed Forces Fund

Note: Solid arrows show communication flow; dotted arrows the direction of social mobilization. (H=Hierarchist, I=Individualist, E=Egalitarian, F=Fatalist)
Source: Renn (1992c, p. 183).

Risk perception: Analysis of findings from the questionnaires survey

The questionnaires survey done on the respondents from the Pilgrims Fund was analysed according to data analysis methods as described in Chapter 3. The findings showed that, although the objectives of the Pilgrims Fund as set out by the incorporating act pronounces it as an egalitarian organisation according to the cultural theory, the respondents within the organisation showed hierarchist behaviour within the organisation. Due to the fact that the hierarchist has high regard for the good of the community and have a mentality that "everyone knows his place", it is apparent that some hierarchist may have actually imposed hierarchist rationality within the egalitarian organisation leading to a conflict of rationality. Cultural theory holds that organisations are identified according to the four rationalities. The Pilgrims Fund which was an egalitarian organisation identified with egalitarian or individualist or hierarchist respondents may have issues in its operations, but the Armed Forces Fund, having a single rationality, i.e. hierarchist, it seems to be operating quite well.

By applying cultural theory and the social arena metaphor to each case organisation it was found that the case organisation which was value-based, i.e. the Pilgrims Fund did not have much alternative but to abide by the blanket mandatory rules imposed on them. However, due to the ambiguity of the reporting regulations, the way in which the reporting was done in the Pilgrims Fund strictly limits the longitudinal comparability of the financial statements, for example, through usage of different terminologies. Although comparability is impaired, they managed to obey all the economic-based reporting requirements and were given clean audit reports for 2001, 2002 and 2003. The clean audit reports represent the accountingisation of the value-based activities of the organisation, and since this is mandatory, the statements produced have satisfied the mandatory requirements. The issue is the value-based contributors felt that their requirements were not filled by the economic-based reporting, thus requesting more information.

This does not seem to be the case in the Armed Forces Fund, where the risk reporting complies with the reporting regulations. The Annual Financial Statements were also found to be comparable, i.e. usage of uniform terminologies promoting comprehension by the audience. The next section will analyse the risk reporting of the case organisations.

Risk reporting

This section will analyse findings on the accounting disclosure and information communication within the two case organisations.

Accounting disclosure

The following subsections will analyse firstly, risk disclosure and regulation; secondly, disclosure and culture and thirdly, public sector, accountability and transparency.

Risk disclosure and regulations

Perhaps in the Pilgrims Fund, the missing evaluation of risk communication is the main factor influencing the different policy systems to use the media as a channel to request reporting. This stems from Cvetkovich and Timothy, (1992, p. 11) statement that, "There is a great need for systematic evaluations of risk communication."

Although there have been discussions of issues related to developing accounting standards for risk disclosures in financial statements; firstly, on the current disclosure requirements and secondly, specific issues related to risk that complicate the improvement of the reporting requirement process; these discussions were made in the developed countries. Similar discussions are absent in Malaysia shown by the lack of reference to risks in any of the public sector accounting regulations or the professional accounting standards.

The development of the Financial Reporting Standards (FRS) by the Malaysian Accounting Standards Board was an attempt to standardise accounting practice. However, the judgements guided by the definitions of the accounting concepts contained within the standards can often have a major impact on an organisation's external reporting as due to their subjectivity they are subject to manipulation (Hronsky & Houghton 2001). Furthermore, the Financial Reporting Standards were adopted from the private sector which is profit motivated and applied to all statutory bodies, which have different motivations. In the case of the Pilgrims Fund, the application of the professional accounting standards shifts the value-based reporting into economic-based reporting, justifying the clean audit reports, since the audit reports were based on the profit motivated professional accounting standards. Without further additional reporting the requirements of the value-based audience were left unsatisfied (Baydoun & Willet 2000).

This study has also adapted the risk disclosures categories as per ICAEW (1998) where risks were classified into six risks categories consisting of financial risks, operations risks, empowerment risks, information processing and technology risks, integrity risks and strategic risks. It is important to note that most of these risks are not part of mandatory disclosure requirements of annual financial reports and therefore the majority of risk reporting will be voluntary in nature rather than due to regulatory compliance. It was noted that in its Annual Financial Statements the Pilgrims Fund did not have any risk disclosure from the empowerment and information processing and technology category, which it justified by the publication of promotional materials to instil confidence in the contributors and general public in 2003 and in 2005. The findings from the risk reporting in the media showed that there was significantly higher negative risk reporting on the Pilgrims Fund, basically on issues relating to religious values such as the listing of the subsidiary and loan for pilgrimage.

Another effort to fill the gap of risk reporting was made through corporate governance, a process that comprises of directors' accountability to the shareholders, supervision of managerial action and setting strategic directions (Tricker 1984). Corporate governance supervises and guides corporate behaviour (Rayman-Bacchus, 2003). In the Pilgrims Fund, the appointment of the business-minded Muslim Chairman in 2001 and the appointment of the investment panel consisting of investment experts and a religious expert implied that the stakeholders' funds were in good hands. Stakeholder groups were known to hold corporations to account for their decisions and actions, made possible through the internet, suggesting that corporate behaviour has become more open to scrutiny and action (Whysall 2000) and are answerable to the public (Samuels, 2001).

The development of risk management systems in the UK included the internal control and risk management disclosure requirements of the Combined Code of Best Practice in Corporate Governance. This Combined Code is produced by the Turnbull Committee and published by the London Stock Exchange in 1993 where listed companies are required to state that they maintain a sound system of internal control, emphasizing the need for internal risk management procedures as well as to recommend companies report externally on their key risks. In Malaysia, development of risk management is still in its early stages. The Pilgrims Fund realisation of the importance of risks management is shown when the risk management committee was set up. However, there is a rather low internal visibility of the risk management committee, proven when the Branch Operations Manager interviewed stated that there is no such committee.

Beretta and Bozzolan's (2004) study on risk disclosures in the private sector contended that in the analysis of disclosure of risks made by public companies, attention has to be paid not only to how much is disclosed but also to what is disclosed and how. Although Linsley and Shrives (2006, p. 390) stated that Beretta and Bozzolan's (2004) analysis was the most extensive risk reporting study on companies to date, due to the different professional reporting regulations of the statutory bodies in Malaysia and the companies in the Italian Stock Exchange, Beretta and Bozzolan's proposed framework was not used for this research.

Another finding is that the Pilgrims Fund focussed upon disclosing information on past and present risks, rather than future risks. Ascribing the cause of negative outcomes to factors that are beyond directors' responsibilities suggests that attribution theory (Aerts 1994) may be a factor in risk reporting. Along similar lines, using available disclosure quality scores extracted from detailed analysis of Annual Reports, Daske and Gebhardt (2006) found that the disclosure quality of Austrian, German and Swiss firms which have voluntarily furnished information and complied with the International Financial Reporting Standards in response to specific stock market segments has increased significantly. This is similar to the case in the Pilgrims Fund where disclosure levels have substantially increased especially after the imposition of the professional accounting standards. Similar to other UK studies (Firth 1979; Beattie, McInnes & Fearnley 2004b) and in the non-UK study (Hossain, Perera & Rahman 1995); Ahmed and Courtis, (1999) found that the corporate size was significantly associated with disclosure levels in Annual Reports. More specifically, a significant association was found between the number of risk disclosures and the company size (Linsley & Shrives 2006). However, this does not seem to be the case in the Pilgrims Fund, since its size apparently does not have an impact on the amount of risk disclosure made through 1996 to 2003.

Towards improving the quality of risk disclosure, in an earlier study, Linsley and Shrives (2000) and Beretta and Bozzolan (2004) proposed that companies should quantify the size of a risk wherever possible, as the placing of a monetary value upon a risk enables the reader to assess its potential impact upon the company. However, Linsley and Shrives (2006) later stated that there are significant difficulties associated with quantifying risks. As stated earlier, there is no quantification of risks in the Pilgrims Fund. This is in accordance to Frame (2003) which stated that the measurement of risk can be problematic because of lack of data. A risk measurement technique may only be applicable in limited circumstances, for example when applying value at risk methodologies (Dowd 1998).

The above presented an analysis of the findings against the literature on accounting disclosure, especially risk disclosure, accountability, transparency and regulations. The following subsection will elaborate on disclosure and culture, to understand the impact of culture on disclosure.

Disclosure and culture

In their study, Haniffa and Cooke (2005) seek to increase understanding of the potential effects of culture and corporate governance on social disclosure in Malaysia. They used ethnic background as the proxy for culture. The study showed a significant relationship between corporate social disclosure and boards dominated by Malay directors, boards dominated by executive directors, chair with multiple directorships and foreign share ownership. This study was unable to test the applicability of Haniffa and Cooke's (2005) findings because the case organisations have the same ethnic background. However, it was found that the quantity of risk disclosure in the financial statements is almost the same despite the Pilgrims Fund having a considerably higher Total Assets figure.

Another study by Birnberg and Snodgrass (1988) found that the presence of a culture which is homogeneous and cooperative would lead to less emphasis and resources could be spent on communicating across organisational levels and directing information to the proper individual or work group. In the Pilgrims Fund this is not the case, and the resources do not seem to be spent communicating across organisational levels.

In neighbouring Indonesia, Efferin and Hopper (2007) suggested that the cultural values of the Chinese business owners and the *Pribumi* (indigenous) employees were complementary: it was the history of state discrimination and wealth differentials that fuelled ethnic tensions, which were a latent residual from previous eras. In another study on culture (Trompenaars 1993, p. 69), it was found that the tone of voice portrays different images in different cultures. In Nigeria, it was found that raising the tone is effective for important issues, but in Malaysia, shouting is a sign of loss of face and colleagues will not take shouting seriously. This shows that the person who shouts cannot restrain their temper. The findings of Efferin and Hopper (2007) are apparently not relevant for this study since this study is intra-cultural.

The above section analysed disclosure and culture. The following section will present the case for public sector accountability and transparency.

Public sector accountability and transparency

In terms of accounting, the public sector has gradually accommodated an increasing amount of influence of professional accounting labelled as "accountingisation" of the public sector, ridding it of its value-base and turning it into an economic-based entity, much to the dismay of interested quarters (Power & Laughlin 1992; Broadbent & Laughlin 1997; Power 1997; Lapsley 1998; Thomson & Veitch 2000;

Power, Laughlin & Cooper 2003) and leading them to secure needed information through social amplification means such as the media (Kasperson 1992; Renn 1992c; Kasperson, Kasperson, Pidgeon and Slovic 2003). This is exactly the case in the Pilgrims Fund, where there has been a change in public sector financial reporting to comply with professional accounting.

Barton (2005) reported that Australian Accounting Standards were applied to the public sector in Australia in adopting accruals accounting, but the reason given for their application to the public sector is questionable, since the operations of the two sectors are different. He suggested that accounting standards must be tailored to suit the specific information needs of each sector, in order to provide relevant information. This seems to be replicated in Malaysia. Due to the special value-based reporting requirements of the audiences to the Pilgrims Fund there should be a reporting standard tailored to suit their information needs. However, it seems that the calls for value-based reporting by the audience are unheeded by the rule enforcement agency, the government and the Pilgrims Fund.

In Malaysia, the onus of disclosure, i.e. accountability, is required by law of the Senior Officer in Charge of the Pilgrims Fund's Financial Management, who is required to declare according to the Statutory Declaration Act 1960, that the financial statements have been prepared in an accurate manner and that the accounts are true. The Chairman, together with one other member of the board of directors are also required to certify that to the best of their knowledge, the Annual Financial Statements have been prepared to represent a true and fair view on the affairs of the organisation. Transparency is a very important element of accountability (de Haan, Amtenbrink & Eijffinger 1998). Governance transparency covers governance disclosures for external investors and holds management responsible. De Bruijn (2002) stated that transparency means that the information is made public. The public sector reporting can be said to be transparent when it is explained and published for distribution to the degree that satisfies the requirements of the interested parties. In terms of the Pilgrims Fund, information has been made public, but the degree to which it is transparent is still questionable since it was found that longitudinal comparability of the financial statements was made difficult due to usage of non-uniform terminologies.

The above section analysed the public sector accountability and transparency. The next section will analyse information communication, to investigate how the information has been communicated and whether this information has been transparent.

Information communication

This section will be divided into internal information communication, which includes the communication of information within the organisation (written, such as internal control documentation; face to face, such as meetings; and oral, such as telephone communication, etc.) and external information communication (documentation, such as Annual Report, special pull-out magazines, promotional magazines, monthly news bulletins, newspaper reports, web blogs) which includes the communication of information to parties external to the organisation.

Internal information communication

A study by Rowe and Struck (1999, p. 179) on internal information communication stated that the most frequent objectives of information communication are to "get precise information", "transmit precise information" and to "discuss/exchange information". In the Pilgrims Fund it was found that in order to get precise information, the mode of communication most often used is the telephone. Other reasons why the telephone is used are to: "resolve problem/decide", and "discuss/exchange information". The same results were found in the Armed Forces Fund, however, there is strict internal control regarding meetings since mobiles are not allowed because of its spying capabilities.

When transmitting precise information, individuals within the Pilgrims Fund normally use written media, i.e. email and fax. More ambiguous and interactive objectives promote the use of the telephone which more studies rank higher in richness than voice mail (vmail), email and fax (Zmud, Lind & Young 1990 and Rice 1992). Rowe and Struck's study (1999) on the individual's use of telecommunication services (fax, email, vmail and telephone) within an organisation showed that use is generally related to access. For example, use of internal telephone depends on the access differences inside the company. People who share offices have less privileged access to telecommunication services. Their study also showed that people who have access to email and vmail use the phone 60% less than people who do not. This seems to be similar to the findings in the Pilgrims Fund, where each manager's desk has a telephone connection, but officers who are lower ranking shares a telephone. In the Armed Forces Fund, the written media used to convey precise information is an internal memo system which is accompanied by a list that each employee whom it is supposed to be circulated to will need to sign as proof that the employee had read the memo.

In the Pilgrims Fund, although the priority is to have clear reporting channels and protections for informers (Davies 2000, p. 3), it seems that the information as to who a person should contact should there be any risks that should be reported to a higher level is apparently not visible although the questionnaires revealed that some respondents knew misappropriation of organisational resources were done by their peers. In the Armed Forces Fund, there is a clear understanding of a reporting channel direct to the Chairman should an employee find any risks that might affect the organisation.

With regards to the International Standards on Auditing (ISAs), internal auditors are required by the Institute of Internal Auditors (2000) to discuss audit matters with the board of directors. The focus of communication by the internal auditors is mainly the internal aspects of the organisation (Colbert 2002, p. 147). The internal audit department should therefore have the expertise to fulfil their role as consultants and should be well coordinated with the audit committee and external auditors (Nagy & Cenker 2002, p. 130). In the Pilgrims Fund, the internal audit department has a good relationship with the auditors as well as the board of directors. This is the same in the Armed Forces Fund, where the internal audit department is on a year-round audit work on the organisation and reports to the Chairman.

External information communication

In the United Kingdom, Fraser and Henry (2003) found that there is a requirement for more information from shareholders, which include risk management information. This indicates a shift in the attitudes of the shareholders, wanting to get more involved with how their funds are invested. In Malaysia, the situation is the same in the Pilgrims Fund. This may have followed changes in management, from persons of religious background to persons from business and professional background in 2002, as well as the poor performance of the Pilgrims Fund since the economic crisis in late 1997 culminating in 2002 when the total members' contribution in Pilgrims Fund fell. It seems that these factors have motivated the stakeholders to require more information shown by the high number of media reporting. On the other hand, the hierarchist contributors in the Armed Forces Fund did not see any need to request for more information. It seems that their hierarchist rationality has made them assume that the management knows what they are doing.

(Davies 2000, p. 76) stated that in terms of external information communication, the organisation could learn from other businesses and set communications policies. This is precisely the case in the Armed Forces Fund, where the Chairman has initiated adherence to standards before there is any requirement for it in the public sector, due to his experience of being Chairman to several groups of companies listed on the Kuala Lumpur Stock Exchange Main Board. Results of the study by Maali, Casson and Napier (2006, p. 278) proved that although the Islamic principles upholds social issues in human conduct, the Annual Reports did not disclose as much information as they could have.

Buhr and Freedman (2001) found that culture heightened voluntary disclosure in corporate reports. This was found to apply especially on operating risks disclosure, in both the organisations, since although there are no requirements for risk reporting in the rules and regulations at all, it was found that they have voluntarily disclosed risk information in the financial statements.

Burton, Coller and Tuttle (2006) found that qualitative information induces varying beliefs within the society, as information is interpreted using the recipients' knowledge. This applies for both organisations. In the Pilgrims Fund, the audience has decided that the Annual Financial Statements have not given them enough information, thus the need for more, whereas in the Armed Forces Fund, the audience trust the management, thus the lesser need for more information.

This subsection analysed the external information communication. The next section will analyse the mass media influence on external information communication because depending on their resources and their interests, the mass media has the capability to exert influence on the arena (Philo 1999, Kitzinger 1990, Bartels 1993, Miller 1995 and 2006).

Mass media influence

Eldridge, Kitzinger and Williams (1997) found that media such as the television and newspapers establish public awareness of an issue. Their representations are the lens through which most people view reality. This research found that the Pilgrims Fund has substantial media attention during the period 1996-2007. The newspapers represent both the ruling and opposition party. Due to the fact that the opposition party has a religious theme, there are many religious experts who have joined that party. They have considerable influence on the audience because of the high standing of the religious experts. Therefore, the opposition party newspaper presents a competing alternative to the ruling party's newspaper and due to the fact that they present their case with expertise, they could influence the audience.

As stated by Kitzinger (1999, p. 5) some audience absorb considerable information from the press and television even when the media have given false accounts (Miller 1995; Philo 1999), maybe due to the absence of other sources of data (Eldridge, Kitzinger and Williams 1997); whilst others scrutinise the information, consequently rejecting messages interpreted as unrepresentative, illogical or contradictorily covered in the different media outlets particularly due to their personal experience (Eldridge, Kitzinger & Williams 1997; Kitzinger 1999).

On the other hand, not much news has been reported by the media on the Armed Forces Fund. There seems to be no interest by the opposition party. There is only positive news by the media backed by the ruling party. This means that the hierarchists contributors are not complaining may be because they are satisfied or because they know that they are in capable hands. On the other hand, this could also mean that the newspapers are keeping silent and not reporting more letters from the Armed Forces Fund contributors so as not to incite tension amongst the Armed Forces personnel, costing national security. Studies have also shown that there are pervasive common themes in the meanings conveyed to the public despite variations in audience interpretatión of media reports.

Through the communication process, the issue amplifiers influence the allocation of resources and the effectiveness of each resource to mobilize public support within the arena. In the case of the Pilgrims Fund, the opposition party newspapers may have spent a lot of resources in an effort to ensure that the audience would appreciate their values. The wider audience may consist of other social groups who may be enticed to enter the arena and individuals who process the information and may feel motivated to show their support or displeasure with one or several actors or the arena as a whole. Part of the political process is to mobilize social support by other social actors and to influence public opinion (Renn 1992c).

Although in both organisations, the media is not the audience's only source of information, the burden of good journalism is to seek information which do not fit and develop them into critical accounts (Philo 1999). Miller (2006) found that the determinants of press coverage include public interest and investigation costs. This applies to both the ruling and the opposition party in the Pilgrims Fund, subject to their interests in reporting. The more information is required, the more they are able to sell their papers and therefore they can maximise profits. Therefore, it is not surprising when the negative reporting on the Pilgrims Fund's listing of its subsidiary as found in Chapter Six is followed by reaction from the public before being resolved by the Prime Minister. His request that the information not be further discussed considerably reduced the discussion on the subject in the newspapers.

The mass media clearly influences the risk communication within the arena. The next section will discuss some thoughts on the analysis of findings.

Some thoughts on the analysis of findings

Due to the Pilgrims Fund being an egalitarian organisation by its incorporating Act, it should have worked for the good of the community, trying to convey risk reporting through to their members. As a measure of complying with the regulations externally imposed on them which specified what should be reported and how this report should be given, it seems that they have obeyed the law and reported the required information. Closer study of the reports however, showed that the organisation have done so in a way that confuses the audience, by using different terminologies to refer to the same item or reclassified items such that comparability between one year's financial statement to another is impaired.

The imposition of the reporting regulations by the government, which is seen as a hierarchist bureaucracy, has to be complied with by the egalitarian organisation manned by hierarchists. The egalitarian is against external boundaries. The hierarchist supports laws. Therefore, their action in disclosing information which seems to comply with the external regulations; but not enabling comparison by using different terminologies and reclassifying items in the financial statements, exactly portrays what is expected, i.e. a mix of rationalities will pose some issues for the organisation.

On the other hand, analysis of the responses from the Armed Forces Fund showed that they fulfilled all requirements of a hierarchist by agreeing to most statements that hierarchists are expected to agree to. On the average, they could be labelled as strong hierarchists. Attachments to any of the other rationalities, i.e. individualists, egalitarian or fatalists are insignificant. Correspondingly, they have not only demonstrated abidance to externally imposed reporting regulations, but reacted pro-actively by making changes to their disclosures long before they were subsequently required. The reporting has been uniform over the years and there is no inconsistency in usage of reporting terminologies.

The Act, which set up the organisation as a hierarchist and the organisation which is apparently manned by hierarchists, together formed a hierarchist environment. Being hierarchists, they are bound by strong prescriptions and have obeyed the externally imposed regulation on reporting. They knew their place, i.e. what should be done, have been anticipating changes and went ahead with the changes for the good of their community. This proves the cultural theory is applicable to the Armed Forces Fund.

Due to the different nature of their objectives, there was a significant difference in the organisational reporting. The Pilgrims Fund which was involved in pilgrimage related affairs as well as maintaining economical returns for the contributors' investments depicted this in their Annual Financial Statements. However, even though one of the 'Notes to the Accounts' stated that "the accounts have been prepared under the historical cost convention and in compliance with approved accounting standards in Malaysia with modifications demanded by the *Shari'ah* laws", there is no mention of the 'Value Added Statement' that Islamic Corporate Reports should contain as per Baydoun and Willet (2000). There is also very few mention of the thirty items of social disclosures appropriate to Islamic banks according to the *Shari'ah* law by Maali, Casson and Napier (2006) that should be reported if the financial institution was applying *Shari'ah law*. The organisation seemed to have complied with the accounting rules and regulations imposed by the government and the pronouncements of the *Shari'ah* Committee of the Islamic Bank to which they depend for *Shari'ah* expertise in their risk reporting.

The Armed Forces Fund which is involved in securing higher returns for their members shows solely income generating efforts related to finances or the real property market. Prior to the year 2000, both organisations are required to show a Statement of Appropriation, otherwise known as the Statement of Changes in Reserves, which is no longer mandatory post 1999. Even when the statement was mandatory, there are significant inconsistencies in the terms used between 1997 and 1998 in the Pilgrims Fund, for instance, the use of 'wholly owned companies' which was re-labelled to 'subsidiary companies' and the use of 'accumulated profits brought forward' which was renamed 'unappropriated' profits carried forward'. The Armed Forces Fund, on the other hand, did not show the same inconsistency since their usage of the same terms over the years has facilitated comparison with prior years' statements. Due to the reporting regulations mentioned in Chapter 4, some other terminologies were used similarly in both organisations, for instance, 'turnover' was changed to 'revenue' in accordance to the application of the accounting standards in 2000.

In the Balance Sheet, the Pilgrims Fund has again used different terms between 1997 and 1998 such as the use of 'Bank balances and savings' which was later replaced by 'Cash and bank balances'. They used 'Work-in-progress' in 1997 which was replaced by 'Construction in process' in 1998 and then renamed 'Work-in-progress' in 1999; and the term 'Property' which was used in 1997, and reclassified into 'Real estate and investment properties' in 1998.

On the other hand, the Armed Forces Fund was again more uniform in their reporting. They did not use different terms to label the same item and did not divide items that were formerly grouped together. After the year 2000 the accounting standards require that the classification be more specific as to the time nature of the assets and liabilities thus they were divided into current and fixed categories by both organisations. This was not required prior to year 2000 when the balance sheet simply contained 'assets' and 'liabilities'.

Reporting on other items such as revaluation of assets was shown in the financial statements by both organisations. With respect to the Pilgrims Fund, they have shown particulars of purchases, revaluations, and profits and losses on disposals, of assets, leasehold costs and capital expenditure written off. Due to the many different categories of the assets, the reporting covers many pages in the notes to the accounts. On the other hand, the Armed Forces Fund shows all fixed assets in the Balance Sheet, but kept most of the explanation in their notes to the accounts. This facilitated the reader in comparing one balance sheet to another and left the option of finding more information in the notes. This seems to be a better way of reporting, bearing in mind the targeted market for which the reports were produced in the first place may not have the professional knowledge to scrutinize every detail in the balance sheet. It is apparent that the Armed Forces have prepared the reports in a way that makes them simple and easy to understand.

On the other hand, in the Pilgrims Fund, the inconsistency in the use of the terms is most apparent when referring to the name given to the Statement of Changes in Reserves (as per 1997-99) which was called the Statement of Changes in Equity (in 2001) and later renamed to the Statement of Changes in Consolidated Reserves (in 2002). The only item that gives the statement away is its position in the Annual Reports and its contents which are mostly similar over the years.

Similarly, in the Pilgrims Fund, the terms used in the Cash Flow Statement were varied, for instance the term 'Foreign exchange reserves (1997), Foreign exchange gains (1998) and Foreign exchange difference (1999, 2001, 02, 03) all referred to the same item. Altogether, there are three pages of items in the statement showing the different terms that have been used over the years. Again, this terms could easily have been misinterpreted as representing a different type of profit altogether.

The Notes to the accounts in the Pilgrims Fund contained additional information on Profit and Loss and Balance Sheet items which was not included in the financial statements. There are always more than thirty notes to the accounts for a financial year referring to various aspects of the financial statements, i.e. thirty one notes in 1996 and 2002, thirty five notes in 1997, thirty four notes in 1998 and 2001, thirty eight notes in 1999 and thirty two notes in 2003.

In terms of the Armed Forces Fund, the presentation of the Profit and Loss account reflects the uniformity of the terms used, some of which has been used throughout the period under study, or consistently between 1996 and 1999, and consistently after 1999. Similarly, in the Balance Sheet, uniformity has been upheld except for one or two items which have been renamed once through the period of study. The same terminologies were used in the Statement of Members' Contribution from 1996 through to 1999. Effective the year 2000, the statement of changes in equity is required by the accounting standards and this has been produced using consistent terms from 2000 to 2003.

Although there have been significant differences in the terms used in the Cash Flow Statement before and after the application of the Malaysian accounting standards, changes were made once and used consistently thereafter.

The Armed Forces Funds Notes to the accounts showed more detailed information compared to prior 2000, through being more specific as to the time context of the items explained. Again this was followed through consistently from prior years and through the years after the regulatory change. Even though the number of notes to the accounts varied over the period under study, i.e. seventeen in 1996, thirty five in 1997, sixteen in 1998, twenty in 1999, twenty two in 2000, forty six in 2001, twenty four in 2002 and twenty five in 2003, a closer inspection showed that this was only due to the information being summarized in the financial statements in some years and a more detailed explanation was given in the Notes in respect of those summaries. This choice of placement of detailed information of summary items appearing in the financial statements in the Notes to the accounts are not specifically regulated by the regulations in existence during the period. Therefore, legally speaking, the Armed Forces Fund complied with the law.

Whilst the Pilgrims Fund used its Annual Financial Statements to convey information originating from themselves, or other parties, such as the Auditor-General, in the different risk categories, i.e. operations risks, integrity risks and strategic risks to the general public, they have also apparently tried to report further positive or negative information to their members through the media, especially relating to operations risks and integrity risks.

However, it is apparent that the media has also worked as an amplifier of negative issues. Two major issues which have taken the media attention during the period under study are the identity theft and the misappropriation of funds. There were withdrawals of money amounting to in excess of RM1 million by cheats posing as true depositors through identity theft. Pilgrims Fund was scrutinised for its failure to recognise identity theft but in its external communications commented it is not their fault since the theft was made by using bona fide identity documents stolen from the Registration Department, thus attributing the blame on the Registration Department; giving positive recognition of the attribution theory. This issue is highly amplified by the media shown by the number of times news reports were made.

The local newspaper printed members' views on the recent misappropriation of funds, which could be summarized as per the statement of a depositor below:

On wanting the misappropriation to be solved immediately:

> "I am a contributor to the Pilgrims Fund since the 1970s. I am deeply frustrated to those who misappropriate Pilgrims Fund recently. I believe the misappropriation is a result of unprofessional administration and supervision, and untrustworthiness in the upper level of management. I urge others to give the police some time to do their investigations. Do not let the Anti Corruption Agency take over the investigation of Pilgrims Fund misappropriations. We do not want them to handle the investigations for fear that it will never be solved as in its other unsolved cases."
>
> -A depositor[93]

The misappropriation of funds involving two senior managers in the organisation, finally resulted in their conviction in 2007. Along the years leading to the conviction, the media played an important part in informing the public of the progress of the proceedings.

Other member dissatisfaction involves web blogs and open internet forums which discussed about issues involving the Pilgrims Fund openly but without need for identification of who the members of the forums are. Normally the web blogs are created by the members of the opposition party to communicate information to the general public who access the information by using the search engines such as www.google.com.my or www.yahoo.com.my. From the 143 categories of risks aired through the media on the Pilgrims Fund, 19 were regarding the listing of one of the subsidiaries of the Pilgrims Fund, THP, which was sourced by amongst others, Senators[94] and academicians[95]. This risk reporting by the different policy systems seconds Hamid, Craig and Clark (1993, p. 137), because whilst Islam approves the acquisition of stocks as investment instruments, it abhors speculative transactions. As such, forward purchases and sales, margin trading and the like need to be

[93] http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=0927&pub=utusan_malaysia&sec=forum&pg=fo_03.htm&arc=hive 2/10/06

[94] http://www.utusan.com.my/utusan/content.asp?y=2005&dt=1012&pub=Utusan_Malaysia&sec=Politik&pg=p0_02.htm 10/12/2005

[95] http://www.utusan.com.my/utusan/content.asp?y=2005&dt=1012&pub=Utusan_Malaysia&sec=Politik&pg=po_02.htm 10/12/2005

dispensed with before shares of an Islamic organisation could enter the stock market. The act of listing TH Plantations itself is seen as contradictory to Islamic principles and raises interest within the arena.

On the other hand, there seems to be considerably less media coverage on the Armed Forces Fund. It seems that the issue amplifiers did not amplify them whilst at the same time, the members and stakeholders seems contented with what they have. This may be due to the fact that the Armed Forces Fund has been successful in its task over the years, i.e. there is no negative reports highlighted by the Auditor-General, and the organisation has delivered what it was supposed to; gave high dividends and bonuses and kept their stakeholders happy. It seems that the members did not have any grudges against the organisation and see themselves as part of it.

It is apparent that 'accountingisation' of the value-based Pilgrims Fund has led to more requests for information and more information has circulated through the media. Although the economic-based reporting satisfies the quest for how much profits was made and the Auditor-General report certified the 'cleanliness' of the financial statements, in terms of Pilgrims Fund contributors, they need to know more, for example, if the investment profits were from pure sources. They have associated pilgrimage with religion and having religious values, therefore money for a pure purpose should not be tainted. They would question values, in the religious sense, i.e. what is allowed in accounting conventions, might not be permitted in religion, for example, usury. As stated by Baydoun and Willet (2000), a simple way is to prepare not just one set of accounts, but two, so that the needs of both policy systems, i.e. the rule enforcer and the contributors are both satisfied. Perhaps it would not cause too much effort on the part of the organisation to prepare the two sets of accounts.

The role as issue amplifier played by the media and the different actors such as the board of directors and the rule enforcers; with the potential and existing stakeholder and social groups such as the members and experts interchanging positions with the general public as a whole, maps on to the graphical representation of the arena metaphor as per Renn (1992c) (see Figure 1 in Chapter 2) for both organisations within their different arenas (Figure 8 and Figure 9). Through social amplification the different policy systems requested further information through the media, which incidentally, was also the means used by the Pilgrims Fund to reply. It appears that there was a risk reporting gap where the economic-based reporting regulatory requirements cannot satisfy the value-based reporting needs therefore requiring alternative reporting. There seems to be a rippling effect since media amplification of an issue brought the issue to the attention of a higher authority that in turn could force the organisation to comply with the requests.

On the other hand, the Armed Forces Fund did not seem to have any problems complying with the reporting requirements and their contributors are very much contented with the high returns they get every year. There seems to be harmony when the reporting regulation and the requirements of the contributors were similarly economic-minded, and in accordance with cultural theory they do well together. Although the contributors to both funds come from the same cultural group, the Armed Forces Fund contributors seems happy to leave matters relating to the 'purity' of investments in the hands of their investment managers.

The ICAEW (1999) identified risk categories that were used to analyse the type of risks disclosed by the case organisations. It seems that some risk categories was not disclosed in the reporting at all[96], whilst others were well reported[97]. It was also found that where the management did not report these risks in the regulated financial statements, they have done so by other printed media, for example, special pull-out magazines accompanying the local newspapers and promotional pamphlets[98], especially immediately after the year 2002 when the total amount of members contribution fell purportedly due to the poor internal control within the Pilgrims Fund[99]. Apparently it seems that they disclosed information which was not given in the regulated financial statements through other alternative risk reporting.

[96] Empowerment and information processing and technology risks.
[97] Operational risks.
[98] Only two magazines accompanying the local newspapers were published, one on 5 January 2003 and another on 27 December 2003, each totals to 36 pages. There was only one promotional pamphlet, 'Lets aim for success', produced in the same year.
[99] As stated by the Chairman in the special pull-out magazine 5 January 2003.

As an afterthought, considering the environment of both the case organisations, if they are placed in the other's different social arena, it seems that the case organisation which had an alignment of its rationality with the different policy systems within its arena will face issues in adjusting to the new arena where it does not have a common rationality to the different policy systems with which it interacts.

It would be interesting to know what would happen if this hypothesis be a reality. Inter-changing the positions of the two organisations, the Pilgrims Fund in the Armed Forces Fund arena and the Armed Forces Fund in the Pilgrims Fund arena would present a different study altogether, but perhaps it could be predicted that the Pilgrims Fund, given that it has given good performance despite not having the same environment of the Armed Forces Fund, will do much better in the Armed Forces Fund arena and that the Armed Forces Fund may find it very difficult to perform in the Pilgrims Fund arena. Despite changes in its top management and lacking internal control procedures, the Pilgrims Fund has managed to provide a low but steady stream of dividends and bonuses over the years.

The above paragraphs gave some thoughts on the analysis of findings, discussing the issues that have been found in this research. The next paragraph presents a summary of this chapter.

Summary

The research showed that the cultural theory can be applied to statutory organisations in Malaysia. Although it did not explain the arena, cultural theory managed to encompass the internal relationship; the relationship within the organisation and its relationship towards its environment. The arena metaphor complements this relationship by providing an overall scenario of the environment and the forces that act within it. The arena shows the relationship between one policy system and another and shows how they are inter-related within the system, and the position played by the issue amplifiers who facilitates risk communication within the scene. This is important to get a picture of what roles are played by the different policy systems acting within the arena. The main policy systems within each arena, depending on their resources, would be able to influence risk reporting by the organisation.

CHAPTER 8 CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH

Introduction

This research investigated the applicability of cultural theory on the relationship between risk perception and risk reporting within two statutory organisations, namely the Pilgrims Fund and the Armed Forces Fund; and examines the applicability of the social arena metaphor to the environment in which the case organisations operate. The findings and its analysis suggests a strong connectivity to cultural theory, as the organisations' actions have been well explained by the rationalities of the cultural theory. The findings also showed that when the organisation consisted of people with the same risk perception, the organisation worked harmoniously. In the Armed Forces Fund, the dominant rationality is the hierarchist. The power implication is that rules and procedures are used in order to cope with uncertainties.

On the other hand, the Pilgrims Fund which has different risk rationalities within it appears to be facing issues in its operations. Over the years, its reporting seems to comply with regulations but a closer study revealed impaired comparability. Usage of different accounting terminologies over a number of years to represent the same items which corresponds to changes in the top management practising different dominant risk rationalities could confuse interested users of the financial statements. In the top management, the power implication similarly seems to be interchangeable between that of the individualist entrepreneur to the egalitarian cooperation and equality, whilst in the middle level management and the employees level, the findings showed a combination of risk rationalities. This confirms that issues could arise when having different rationalities within the organisation.

The cultural theory is also applicable to the organisation and the different policy systems within the arena. An organisation having policy systems with different rationalities could have issues in its operations (there is much inter-relation, there is much risk communication demands which need to be fulfilled). The findings showed that the Pilgrims Fund operated in an environment with different policy systems having different risk rationalities. The implication is that the Pilgrims Fund did have issues in its operations. The reporting regulation was imposed by the hierarchist ruling government upon the egalitarian organisation. The hierarchist-individualist respondents within the organisation prepared the reports according to the standards, as certified by the Auditor-General, but preparation was made by using different terms to represent the same items in consecutive financial statements. This impairs comparability of the egalitarian stakeholders who did not get the information they need from the report. Therefore, they aired their concerns through the means that was apparently effective, i.e. the media. Findings showed that for the Pilgrims Fund, there was more negative reporting in the media, i.e. there was a higher interest in the way the Pilgrims Fund runs its business from the different policy systems within its arena. One such case is the listing of the Pilgrims Fund subsidiary, TH Plantations, where some negative concerns were reported by the newspapers before the Prime Minister suggested Pilgrims Fund to proceed. Other stakeholders' concerns caught the attention of the organisation which reacted by producing alternative means of reporting, disclosing within it those risk categories such as empowerment and information processing and technology risks which was not reported in the financial statements. Although the Pilgrims Fund did not disclose some categories of risks in its financial statements, these categories were disclosed in alternative reporting by the Pilgrims Fund, albeit after negative calls from the different policy systems within its arena which are interested in its operations.

On the other hand, the fact that the Armed Forces Fund was operating in a social arena with the different policy systems such as stakeholders and actors having the same hierarchist rationality have apparently helped the organisation to excel. There were very few risk reporting in the media, and most of these were positive. The cultural theory's hierarchist risk rationality is apparently strictly adhered to by the different policy systems within the arena, i.e. believing in the effectiveness of organisational skills and practices, regarding a problem as solved when a procedure to deal with its institutional management is in place.

This study and the organisations: revised contribution and conceptual limitations of this research

What then, one may ask, is the contribution to the organisations? It is apparent that whilst cultural theory explained the behaviour of the organisations, it apparently failed to provide an explanation on how the case organisation with different risk rationalities could rectify the issues. The organisation is apparently left to fend for itself enduring their existence in the social arena with the different policy systems.

This research posits that an application of Renn's (1992c) conceptualisation of risk arena could better illustrate cases of risk perception and reporting within the environment in which the organisation operates. It shows the role of the issue amplifier, and the frequency (shown by the number of arrows between the amplifier and the other policy systems) of communication between the issue amplifier, the source and the recipient of information. It also shows the social mobilisation of people within the different policy systems. It was found that in the Pilgrims Fund arena, there is a higher amount of reporting that was amplified (shown by the number of arrows in Figure 8). Amplification was made by the issue amplifiers because there is a demand for it through increase in daily newspaper sales or higher visitor numbers to their websites.

There seem to be a steady stream of contributors who poses issues, religious or otherwise, in the forum columns of the daily news, despite the fact that these issues receive minimal attention by the Pilgrims Fund. Social groups such as the opposition party, have their own objectives, and sometimes play with the issues to entice the public for votes. The ruling government imposes hierarchist rules and regulations on the supposedly egalitarian organisation managed by a set of hierarchist-individualist board of directors and top management of differing rationalities. This imposition of rules by the hierarchist government seems to be complied with by the organisation, but this research also shows that there is room for improvement since although financial statements are prepared as per the rules and regulations, the way in which the statements are prepared, i.e. using differing terminologies from one accounting period to another, considerably reduces comparability of the organisation's financial statement from one year to another. This considerably affected contributors to the Pilgrims Fund who may not have the accounting knowledge to understand each accounting jargon.

Within Renn's (1992c) conceptualisation of risk arena, together with the experts, the Auditor-General and the Public Accounts Committee, the founding father pronounces their views through the media. The founding father, although responsible for the incorporation of the Pilgrims Fund, later remains just as an actor within the environment. It seems that when amendments were made to the earlier Pilgrims Management and Fund Act 1969 (Act 8) there was no consultations made with the founding father, the Royal Professor Ungku Aziz. The media forms the only channel communicating his message that the Pilgrims Fund 'has deviated from its original objectives' (Ayub, not dated).

This was not the case in the Armed Forces Fund where the policy systems within the arena seem to be satisfied with the organisation. There is lesser communication flow (Figure 9). The different parties seem to be satisfied and contented. An additional finding is that a single rationality within the arena between the Armed Forces Fund and the different policy systems within its arena eases operations. There are lesser requests for information, and therefore lesser amplification of issues. Where there is communication aired by contributors through the media, the Armed Forces Fund showed commitment to respond to the matters raised. On the other hand, the Pilgrims Fund, with different policy systems having different risk rationalities faces a lot of issues in its operations (i.e. basically through demands for information, amplification of issues). It does not seem to tackle the issues aired by the media immediately but does so in alternative publication produced as and when necessary for example, the special pull-out magazines accompanying the local daily.

Besides Renn's (1992c) social arena metaphor, this research also attempts to extend the use of cultural theory (Schwarz & Thompson 1990; Thompson, Ellis & Wildavsky 1990), to help clarify the methodological basis for intra-cultural risk perceptions and the (conflicting) reporting rationalities of the case organisations. Through grid-group, cultural theory presents four main conflicting risk rationalities along the grid (i.e. rules and regulation) continuum against the group continuum. This research extends the applicability of cultural theory to intra-cultural situations, i.e. risk rationalities could differ even if there is a common cultural background – ethnicity and religion. It also identifies the various policy systems within the social arena of the Pilgrims Fund and also extends the applicability of risk rationalities to these policy systems.

Despite the contributions of this research, it has limitations. The first limitation is that, due to the nature of the research being a case study research, the research findings are not generalisable to other statutory bodies. It is thus not the intention of this research to make any generalisation since statutory bodies are originally set up by the government with a purpose. Each statutory body's existence is geared to achieve its individual purpose. The difference in the objectives of each statutory body does not permit performance measurement using a single universal performance indicator such as money for all statutory bodies. Some statutory bodies are set up for economic benefits of contributors whilst others emphasises values. In the statutory bodies emphasizing values, contributors may not attach utmost importance in monetary gains. Thus the second limitation of this research is that, although it was found that the application of one mechanism for all statutory bodies, i.e. the Treasury Circular Number 4 of 2007 and the Financial Reporting Standards does not fulfil the value-based objective of some statutory bodies, this research does not offer a solution to the problem. The formulation of a value-based performance measure tailored to each statutory body does not seem to be the main agenda of the regulators and policy makers at present, although this research hopefully may shed some light on the problem and pave the way for a value-based performance measure in the near future.

This study and the government: revised contribution

In an effort to standardise statutory bodies and impose similar measures for performance measurement, the government has taken some statutory measures. This includes repealing the Pilgrims Management and Fund Act 1969 (Act 8) and replacing it by the new Pilgrims Fund Act 1995 (Act 535), effective 1 June 1995. The Treasury Circular Number 15 of 1994 was replaced with the Treasury Circular Number 4 of 2007, to take effect from the 2007 financial statements. The Financial Reporting Standards are also imposed on the statutory bodies. The new Pilgrims Fund Act 1995 (Act 535) removed some of the powers of the Yang diPertuan Agong and credited this to the Minister-in-charge of Religious Affairs. Although the moves met with some opposition as is predicted from the loyal citizens of the Monarch, the mentality of the contributors during the period of change was similar to what is regarded by Thomson, Ellis and Wildavsky (1990) as the egalitarian rationality, i.e. for the good of the community.

On the part of the government, it oversees what is going on in all the statutory organisations and the environment and has duly considered the situation and the available courses of action. The government understands that it neither have the liberty to force individuals within the organisation nor the general public to change their risk rationality. This is not an option, since changing rationalities involves time, and it will not be easy to change the mindset of the population, at least not for the present generation. Enforcing drastic actions to pursue this option may even jeopardise their votes in the next election. The next best course of action is temporary, i.e. to impose new regulations. The implementation of the new Treasury Circular Number 4 of 2007, Guidelines on the preparation and presentation of Annual Reports and financial statements of the statutory bodies is the best example of the government using regulations as a temporary measure to standardize accounting practice, enabling longitudinal comparability of the financial statements of each organisation.

As the goal of this research is exploratory, i.e. to satisfy curiosity, and to provide a better understanding on the risk perception, risk reporting and the different policy systems within each case organisation's environment, the research hypotheses are suppositions based on the research objectives and the research questions. It has not been the intention of this study to prove the hypotheses as either true or false. Accordingly, the following paragraphs present a reflection on the suppositions based on the research objectives and the research questions.

Hypothesis one states that:

H_1 : If the risk rationality of the organisation and the individuals within it is similar, then the organisation should work well together.

Through the first research objective it is found that in the Pilgrims Fund there is a difference between the risk perception of the organisation and that of the individuals within the organisation, based on their attitudes towards risks i.e. their cultural biases as per Douglas (1982). This difference of risk perception translates into a difference in risk rationality between the organisation (egalitarian) on one side and individuals within the organisation, such as the Branch Operations Manager (hierarchist-egalitarian), the Corporate Communications Manager (hierarchist-egalitarian) and the Human Resource Development Manager (Individualist) (see Table 25: Risk perception of the Pilgrim Fund interviewees). There is also a difference in risk rationality between the organisation and the policy systems within its arena, namely the top management (egalitarian/hierarchist/individualist) and the Board of Directors (hierarchist/individualist) (see Figure 8: Graphical Representation of the arena metaphor of the Pilgrims Fund). Hypothesis one supposes the organisation will not be working well together.

On the other hand, through the first research objective, it is found that in the Armed Forces Fund, there is mainly a similarity between the risk perception of the organisation and that of the individuals within the organisation, based on their attitudes towards risks i.e. their cultural biases as per Douglas (1982). This similarity of risk perception translates into a similarity in risk rationality between the organisation (hierarchist) on one side and individuals within the organisation, such as the Strategic Planning and Quality Implementation Manager (hierarchist), the Processing and Information Technology Manager (hierarchist), the Senior Internal Auditor (hierarchist) and the Risk Manager (hierarchist) (see Table 39: Risk perception of the Armed Forces Fund interviewees). There is also a similarity in risk rationality between the organisation and the policy systems within its arena, namely the top management and the Board of Directors (hierarchist) (see Figure 9: Graphical Representation of the arena metaphor of the Armed Forces Fund). Hypothesis one supposes the organisation will be working well together.

Hypothesis two supposes that:

H_2 : The alignment of the organisation's risk rationality with the rule enforcer's risk rationality in each arena will determine the risk reporting practises.

Accordingly, the second objective is to explore the risk reporting of the organisations in their regulated Annual Financial Statements between the years 1996-2003, i.e. the different risk categories which have been disclosed. The Pilgrims Fund is an egalitarian organisation operating in a hierarchist environment. The rule enforcer is a hierarchist. The risk reporting practise seems to follow the rules and regulations and satisfied the Auditor-General. Within the Pilgrims Fund, audit reports received over the period 2001-2003 (see Table 52: Types of Audit Reports received) show no non-compliance with the regulations imposed by the mainly hierarchist ruling government on the egalitarian Pilgrims Fund. Closer scrutiny found that the terminologies used by the mainly egalitarian/hierarchist/individualist top management hampered longitudinal comparability of consecutive financial statements. Usage of non-uniform terms also reduced transparency. Despite having financial reporting standards to standardise the financial statements, these do not seem to satisfy the information needs of the egalitarian/fatalist contributors.

On the other hand, since the Armed Forces Fund is a hierarchist organisation operating in a hierarchist environment, the risk reporting practise apparently complied with all reporting regulations, is more comparable and more transparent. This is reflected by the organisation's compliance to regulations, through the Audit reports for the years 2000-2003 (see Table 52: Types of Audit Reports received). There also seems to be a steady amount of dividends given to the members through the period 1995 to 2003 even though its percentage is subject to the Minister of Finance's approval.

The third hypothesis states:

H_3 : The alignment of the case organisation's risk rationality with the risk rationality of all the different policy systems within the social arena will determine the nature and extent of the risk reporting gap.

In accordance with this supposition, the third research objective is to explore the risk reporting of each organisation in the media, which involves exploring the different policy systems within the social arena of each case organisation according to Renn (1992c). On the one hand, for the Pilgrims Fund, Table 33: Pilgrims Fund: Summary of risk disclosure categories 1996-2003 showed the total number of risk disclosures in the Pilgrims Fund to be 184. Table 54: Risk disclosure within alternative documentation shows the disclosure totals to 352. Alternative documentation refers to the special edition on pilgrimage session and the special promotional magazine 'Lets aim for success', both produced in the year 2003 and the six monthly news bulletin made by the Pilgrims Fund for the first half of 2005. It seems that there is a need for the Pilgrims Fund to disclose information to the policy systems within its arena through means other than the mandatory document such as the Annual Financial Statements and Annual Reports.

The findings show that the Pilgrims Fund provides for the information needs through alternative reporting. The risk disclosure within alternative documentation by the Pilgrims Fund shows that there seems to be a risk reporting gap when the case organisation's risk rationality is in misalignment with the risk rationality of a majority of the different policy systems within its social arena. The risk needs of the contributors apparently seem to be satisfied by means other than the regulatory financial statements.

On the other hand, for the Armed Forces Fund, Table 48: Armed Forces Fund: Summary of risk disclosure categories 1996-2003 shows the total disclosures as 200. There were no other supplementary disclosures made by the Armed Forces Fund besides the required mandatory disclosure. There seems to be adequate information disclosed within the mandatory Annual Financial Statements and Annual Reports. There seems to be only minimal requirement for additional information which is satisfied through replies made by the Armed Forces Fund through the forum column in the local newspapers (see Table 58: Reported risk categories, for a comparison between the summary of the risk categories for the Pilgrims Fund and the Armed Forces Fund).

In reflection apparently, although the Pilgrims Fund seems to abide with mandatory requirements to produce Annual Financial Statements and Annual Reports, it also prepares additional documentation to satisfy the policy systems within its arena. In the Armed Forces Fund, there seems to be no additional documentation prepared in addition to the mandatory Annual Financial Statements and Annual Report.

The fourth hypothesis states:

> H_4 : If the value-based organisation has to comply with the requirements of the economic-based reporting regulations, then there will be a risk information gap which will be evident by a higher amount of alternative reporting by the policy systems within the arena in the media.

The fourth objective is to explore the application of one regulatory mechanism for all, i.e. application of an economic-based reporting regulatory framework on value-based organisations. On reflection, the Pilgrims Fund has much negative reporting in the media. Although the media reporting concentrated on operational risks; it is found that empowerment risks and information processing and technology risks is not reported at all (see Table 33: Pilgrims Fund: Summary of risk disclosure categories 1996-2003). This seems to be compensated by two special pull-out magazines issued on 5th January 2003 and 27th December 2003, a promotional magazine and monthly news bulletin from January to June 2005. The special pull-out and promotional magazines seems to be produced to promote contributors' confidence in the Pilgrims Fund after the Members' Contribution Fund dipped in 2002 (see Table 36: List of accounting risk disclosure – the Pilgrims Fund's Depositors Provident Fund balances from 1995 to 2003).

There was a higher amount of negative reporting by the policy systems within the Pilgrims Fund arena in the media (see Table 58: Reported risk categories). It seems that there is a risk information gap between the Pilgrims Fund and its audience. On the other hand, in the Armed Forces Fund, there was minimal request for information from its contributors and there is apparently none from the other policy systems within the arena. Within the Armed Forces Fund, the contributors and the organisation apparently have a common economic goal. It seems that as long as the

Armed Forces Fund delivers, i.e. providing high economic returns to the contributors, the contributors will not have many issues with the Armed Forces Fund.

A critical analysis of the findings – implications for accounting research

In Malaysia, the Pilgrims Fund is the first Islamic financial institution set up. However, it seems that the financial statements prepared by the Pilgrims Fund which proclaimed to exercise *Shari'ah* law, did not seem to fulfil the expected disclosures as per Baydoun and Willet (2000) and Maali, Casson and Napier (2006). Why is it that an organisation which has been set up for forty four years is not able to implement basic requirements of the *Shari'ah*? Could it be that the funds were used to help the economy? If so, this then will satisfy the religious intent, i.e. for the good of the community. But why is the organisation not reporting it? Could it be because the organisation is afraid of how the critics would interpret the situation? For example, critics may say that the government is using the money in the Pilgrims Fund to help the economy therefore the Pilgrims Fund is not able to make more investments in more profitable ventures, at the expense of the contributors, who could demand for a no monopoly for the Pilgrims Fund? Or could it be that the investments were made in companies that were clearly making losses but the government wanted to help anyway because of reasons unknown to the laymen? Or could it be that non-investment in the companies would severe relationship between the Pilgrims Fund and a state government where the company has made huge property developments? Or could it be that the critics may interpret the failed investments as failure of the ruling government and generate this into an issue to secure votes?

From another perspective, why is it that there has been very minimal effort to establish Islamic accounting standards in Malaysia, a country which professes its 'Islamic country' status and has amongst the first Islamic savings institution in the world[100]? Why is it that Pilgrims Fund, clearly a religious organisation with religious intentions, has to adapt professional accounting standards set up for

[100]The first Islamic Bank originated in Egypt in 1963, at almost the same time when the Pilgrims Fund was established as a Post Offices savings.
http://www.escwa.org.lb/information/publications/edit/upload/ead-05-2.pdf 19/10/07

economic-based business entities developed by professional accounting bodies? There are many religious experts in Malaysia, who, if they have come together forty four years ago, should have been able to set up Islamic Financial Reporting Standards that adheres to *Shari'ah*. Why is this not done? Is the ruling government afraid of being labelled religious? Or is the ruling government afraid of being labelled 'just another party with religion as its motive' as one of the opposition parties have been labelled?

Each of the above questions could be developed into a new accounting research, either on accountability, responsibility, value-based accounting or Islamic accounting. The implication is that more accounting research is possible in the value-based organisation but the researcher must be aware that some parties may not agree to disclose information needed for the research. In various government organisations and in a majority of all private organisations, employees often are obliged by the oath of secrecy so as not to disclose information to outside parties. Thus information could only be obtained by permission of the top management.

On the other hand, with the advances in technology and the government effort to promote electronic-government, there is another implication for accounting research since there is a shift in information communication. More information is readily available on the internet websites of government ministries and departments and this should facilitate future research.

Suggestions for future research.

Whilst this study has explored the risk reporting, risk perception and the social arena within which the organisations operate, more investigation could be done relating to the same topic. It would be interesting if further studies could identify the role of individuals in organisations perceived as having a risk perception different from the individuals' own, for example studying failed statutory bodies, such as the Subang Golf Club, i.e. how they existed for three decades without preparing a single set of accounts.

It is also interesting to do a cross-national study to compare researches done in areas where there is strong value-based risk perception to that perceived of the organisation but where the regulatory requirement has another perspective, for example, studying the accountingisation of the value-based National Health Service (for example see Broadbent & Laughlin 1998 and Lapsley 2007).

Another study could have religion as its theme, for example, 'Setting up Islamic Reporting Standards as alternative reporting in Malaysia'. If religious experts could meet and discuss the issues together, and really pave for the way to produce a transparent and comprehensive Islamic Reporting Standard according to *Shari'ah*, its usage in reporting would certainly attract the attention of stakeholders who will know what they need to know from the reports.

Another area for future research is to identify factors affecting mobility of policy systems within the arena. An insight into these factors will enable the organisation to prepare future course of action to promote or impede mobilisation. It would be also interesting to explore what might happen should the case organisations, for example, exchange social arena – would the Armed Forces Fund perform better or would they be worse off? Would the Pilgrims Fund have acted differently if it was put in the Armed Forces Fund arena? Then, would cultural theory still hold true?

BIBLIOGRAPHY

Accounting and Auditing Organisation for Islamic Financial Institutions. (1999). *Accounting, auditing and governance standards for Islamic financial institutions.* Manama, Bahrain: Author.

Adams, J. (1995). *Risk.* London: Routledge.

Aerts, W. (1994). On the use of accounting logic as an explanatory category in narrative accounting disclosures. *Accounting, Organisations and Society, 19*(45), 337–353.

Ahmed, K., & Courtis, J. K. (1999). Associations between corporate characteristics and disclosure levels in Annual Reports: A meta-analysis. *British Accounting Review, 31*, 35-61.

American Institute of Certified Public Accountants. (1987). *Report of the task force on risk and uncertainties.* New York: Author.

American Institute of Certified Public Accountants. (1994a). *Disclosure of certain significant risks and uncertainties. Statement of Position 94-6.* New York: Author.

American Institute of Certified Public Accountants. (1994b). *Improving business reporting. A customer focus.* New York: Author.

Appelbaum, R. P. (1977). The future is made, not predicted: Technocratic planners vs. public interests. *Society 5*: 49-53.

Armed Forces Fund. (1996-2003). *Annual Report.* Kuala Lumpur, Malaysia: Author.

Bartels, L. M. (1993). Messages received: The political impact of media exposure. *American Political Science Review, 87*(2), 267-285.

Barton, A. (2005). Professional Accounting Standards and the Public Sector: A Mismatch. *Abacus, 41*(2), 138–158.

Baydoun, N., & Willet, R. (2000). Islamic corporate reports. *Abacus, 36*(1), 71-90.

Beattie, V., McInnes, W., & Fearnley, S. (2004a). A methodology for analysing and evaluating narratives in Annual Reports: A comprehensive descriptive profile and metrics for disclosure quality attributes. *Accounting Forum, 28*(3), 205–236.

Beattie, V., McInnes, W., Fearnley, S. (2004b). *Through the eyes of management: Narrative reporting across three sectors. Final report.* London: ICAEW Centre for Business Performance.

Beck, U. (1992). *Risk society: Towards a new modernity*. London: Sage.

Bell, T. B., Marrs, F. O., Solomon, I., & Thomas, H. (1997). *Auditing organisations through a strategic-systems lens. The KPMG business measurement process.* [KPMG Monograph]. Montvale, New Jersey: KPMG Foundation.

Beretta, S., & Bozzolan, S. (2004). A Framework for the analysis of firm risk communication. *The International Journal of Accounting, 39*(3), 265-288.

Bernstein, P. L. (1996). *Against the Gods: The remarkable story of risk.* New York: John Wiley & Sons.

Bessis, J. (2002). *Risk management in banking.* Chichester: Wiley.

Bhaskar, R. (1997). *A realist theory of science.* London: Verso.

Birnberg, J. G., & Snodgrass, C. (1988). Culture and control: A field study. *Accounting, Organisations and Society, 13*(5), 447-464.

Bloomsbury reference dictionary. (1994). New Lanark: Geddes & Grosset Ltd.

Bradbury, J. A. (1989). The policy implications of differing concepts of risk. *Science, Technology & Human Values, 14*(4), 380-399.

Brenner W., & Kolbe L. (1996). *The information superhighway and private households: Case studies of business impacts.* Heidelberg: Physica.

Broadbent J., Dietrich M., & Laughlin R. (1996). The development of principal-agent, contracting and accountability relationships in the public sector: Conceptual and cultural problems. .Critical Perspectives on Accounting, 7(3), June, 259-284.

Broadbent, J., & Guthrie, J. (1992). Changes in the public sector: A review of recent "alternative" accounting research. *Accounting, Auditing & Accountability Journal,* 5(2), 3-31.

Broadbent, J., & Laughlin, R. (1997). "Evaluating the new public management reforms in the UK: A constitutional possibility?" *Public Administration, 75*, 487-507.

Broadbent, J., & Laughlin, R. (1998). Resisting the "new public management": Absorption and absorbing groups in schools and GP practices in the UK. *Accounting Auditing and Accountability Journal, 11*(4), 403–35.

Bryman, A. (2000). *Quantity and quality in social research.* London: Routledge. (Originally Boston: Unwin Hyman (1988)).

Buhr, N., & Freedman, M. (2001). Culture, institutional factors and differences in environmental disclosure between Canada and the United States. *Critical Perspectives on Accounting, 12*(3), 293-322.

Burton, F. G., Coller, M., & Tuttle, B. (2006). Market responses to qualitative information from a group polarization perspective. *Accounting, Organisations and Society, 31*, 107–127.

Bushman, R. M., Piotroski, J. D., & Smith, A. J. (2004). What determines corporate transparency? *Journal of Accounting Research, 42*(2), 207-252.

Cabedo, J. D., & Tirado, J. M. (2004). The disclosure of risk in financial statements. *Accounting Forum, 28*, 181-200.

Canadian Institute of Chartered Accountants. (2001). *Management's discussion and analysis; guidance on preparation and disclosure, review draft, December.* Toronto: Author.

Chua, W. F. (1986). Radical developments in accounting thought. *The Accounting Review, 61*, 601-632.

Clarke, L. (1989). *Acceptable risk? Making choices in a toxic environment.* Berkeley: University of California Press.

Colbert, J. L. (2002). Corporate governance: communications from internal and external auditors. *Managerial Auditing Journal, 17*(3), 147-152.

Cooper, S. M. (2003). Stakeholder communication and the Internet in UK electricity companies. *Managerial Auditing Journal, 18*(3), 232-243.

Coulson, A., & Ciancanelli, P. (2003, November), *Accounting Research Methods.* (Lecture notes). Glasgow: University of Strathclyde.

Cvetkovich, G., & Timothy, C. E. (1992). Environmental hazards and the public. *Journal of Social Issues, 48*(4), 1-20.

Daske, H., & Gebhardt, G. (2006). International Financial Reporting Standards and experts' perceptions of disclosure quality. *Abacus, 42*(3-4), 461–498.

David, M. & Sutton, C. D. (2004). *Social research: The basics.* London: Sage.

Davies, D. (2000). *Fraud watch.* (2^{nd} ed.). London: KPMG.

Dawes, R. M. (1988). *Rational choice in an uncertain world.* San Diego: Harcourt Brace Jovanovich.

De Bruijn, H. (2002). *Managing performance in the public sector.* London: Routledge.

Degeling, P., Guthrie, J., & Anderson, J. (1988, July). *Accounting for public accounts.* (Proceedings of the second interdisciplinary conference on accounting). University of Manchester.

DeLoach, J. W. (2000). *Enterprise-wide risk management: Strategies for linking risk and opportunities.* London: Prentice-Hall.

Demertzis, M., Hallett A. H., & Viegi, N. (1998). Independently blue? Accountability and independence in the new European Central Bank. *Centre for Economic Policy Research discussion papers 1842.* London: Centre for Economic Policy Research.

Dietz, T., Stern, P. C., & Rycroft R. W. (1989). Definitions of conflict and the legitimation of resources: The case of environmental risk. *Sociological forum, 4,* 47-69.

Dietz, T. R, Frey, S., & Rosa, E. (2002). Risk, technology, and society. In R. E. Dunlap & W. Michelson (Eds.), *Handbook of environmental sociology* (pp. 329-369). Westport, CT: Greenwood Press.

Dombrowski, W. R. (1987). Critical theory in sociological disaster research. In R. R. Dynes, B. de Marchi and C. Pelanda (Eds.), *Sociology of disasters* (pp. 331-356). Milan: Franco Angeli.

Douglas, M. (1966). *Purity and danger: An analysis of the concepts of pollution and taboo.* London: Routledge & Kegan Paul.

Douglas, M. (1982). Cultural Bias. In M. Douglas (Ed.), *In the active voice* (pp. 183-254). London: Routledge & Kegan Paul.

Douglas, M. (1986). *Risk acceptability according to the social sciences.* London: Routledge & Kegan Paul.

Douglas, M. (2005, June). *Grid and groip, new developments.* (Workshop on complexity and cultural theory in honour of Michael Thompson). London School of Economics.

Douglas, M., & Wildavsky, A. (1982). *Risk and culture: An essay on the selection of technological and environmental dangers.* Berkeley, California: University of California Press.

Dowd, K. (1998). *Beyond value at risk: The new science of risk management.* Wiley: Chichester.

Easterby-Smith, M., Thorpe, R., & Lowe, A. (1991). *Management research: An introduction.* London: Sage.

Efferin, S., & Hopper, T. (2007). Management control, culture and ethnicity in a Chinese Indonesian company. *Accounting, Organisations and Society, 32,* 223-262.

Eldridge, J., Kitzinger, J., & Williams, K. (1997). *The mass media power in modern Britain.* Oxford: Oxford University Press.

Encarta world English dictionary. (1999). London: Bloombury Publishing PLC.

Evans, L., & Wasielewski, P. (1983). *Do drivers of small cars take less risk in everyday driving?* (Research publication GMR-4425). Warren, MI: GM Research Laboratories.

Financial Accounting Standard Board. (2001). *Improving business reporting: insights into enhancing voluntary disclosures.* (Steering Committee Report, Business Reporting Research Project). Norwalk, CT: Author.

Firth, M. (1979). The effect of size, stock market listings, and auditors on voluntary disclosure in corporate Annual Reports. *Accounting and Business Research, 9*(36), 273–280.

Fischhoff, B., Lichtenstein, S., Slovic, P., Derby, S., & Keeney, R. (1981). *Acceptable risk.* Cambridge: Cambridge University Press.

Fischhoff, B., Watson, S., & Hope, C. (1984). Defining risk. *Policy Sciences, 17,* 123-139.

Forester, J. (Ed.). (1985). *Critical theory and public life.* Cambridge, MA: MIT Press.

Frame, J. D. (2003). *Managing risk in organisations.* Josey-Bass, San Francisco.

Fraser, I., & Henry, W. (2003). *The Future of Corporate Governance: Insights from the UK.* The Institute of Chartered Accountants of Scotland, Edinburgh.

Freudenburg, W. R. (1988). Perceived risk, real risk: Social science and the art of probabilistic risk assessment. *Science, 242,* 44-49.

Freudenburg, W. R. (1989, October). *The organisational attenuation of risk estimates.* Paper presented at the annual meeting of the Society for Risk Analysis, San Francisco, CA.

Fuchs, H.W. III. (1986). Auditing as a political instrument. In: J.B. McKinney & M. Johnston (Eds.), *Fraud, waste and abuse in government: Causes, consequences and cures* (pp. 110-117). Philadelphia: Ishi Publications.

Gambling, T.E., & Karim R.A.A. (1986). Islam and 'social accounting'. *Journal of Business Finance & Accounting, 13*(1), 39–50.

Gamson, W. A. (1990). *The strategy of social protest.* (2nd ed.). Belmont, CA: Wadsworth Publications. (Originally Homewood, IL: Dorsey Press (1975)).

Gamson, W. A., & Modigliani, A. (1989). Media discourse and public opinion on nuclear power: A constructionist approach. *American Journal of Sociology, 95,* 1-37.

Geertz, C. (1966). *Person, time and conduct in Bali: An essay in cultural analysis.* Cultural Report Series No. 14). Michigan: Yale University Southeast Asia Studies.

Georgakopoulos, G., & Thomson, I. (2005). Organic salmon farming: Risk perceptions, decision heuristics and the absence of environmental accounting. *Accounting Forum, 29(1)*, 49-75.

Georgakopoulos, G., & Thomson, I. (2007, July). *Salmon farming in Scotland: An exploration of risk, institutional reflexivity, sub-politics and accountability.* Paper presented in APIRA Conference, Auckland.

Ghauri, P., & Gronhaug, K. (2002). *Research methods in business studies: A practical guide.* Harlow: Pearson Education.

Gilgun, J. F. (1994). A case for case studies in social work research. *Social Work, 39,* 371-380.

Goffman, E. (1959). *The presentation of self in everyday life.* New York: Doubleday.

Gray, R. H. (2001). Thirty years of social accounting, reporting and auditing: What (if anything) have we learnt? *Business Ethics: A European Review, 10*(1), 9-15.

Gray, R., Dey, C., Owen, D., Evans, R., & Zadek, S. (1997). Struggling with the praxis of social accounting stakeholders, accountability, audits and procedures. *Accounting, Auditing and Accountability Journal, 10*(3), 325-364.

Gray, A., & Jenkins, W. (1991, December). *Changing codes of accountability in the public sector.* Paper presented at the Third Interdisciplinary Workshop on Changing Notions of Accountability in the UK Public Sector. London School of Economics.

Gray, A., & Jenkins, B. (1993). Codes of accountability in the new public sector. *Accounting, Auditing and Accountability Journal, 6*(3), 52-67.

Habermas, J. (1984-87). *The theory of communicative action.* (Vols. 1-2). Boston: Beacon Press.

Hall, S. (1973). *Encoding and decoding the TV message.* CCCS Mimeo, University of Edinburgh.

Hambly, E. C., & Hambly, E. A. (1994). Risk evaluation and realism. *Civil Engineering, 102*(2), 64-71.

Hamid, S., Craig, R., & Clark, F. (1993). Religion: a confounding cultural element. *Abacus, 29*(2), 131-48.

Haniffa, R. (2001). *Social responsibility disclosure: An Islamic perspective.* (Discussion paper). University of Exeter.

Haniffa, R. M., & Cooke, T. E. (2005). The impact of culture and governance on corporate social reporting. *Journal of Accounting and Public Policy, 24,* 391-430.

Heider, F. (1958). *The psychology of interpersonal relations.* New York: John Wiley & Sons.

Heritage, J. (1984). *Garfinkel and ethnomethodology.* Cambridge: Polity Press.

Hill, W. Y., Fraser, I., & Cotton, P. (2001). On patient's interests and accountability: Reflecting on some dilemmas in social audit in primary health care. *Critical Perspectives on Accounting, 12,* 453-469.

Hofstede, G. (1979). Value systems in forty countries: Interpretation, validation and consequences for theory. In L. H. Eckensberger, W. J. Lonner, & Y. H. Poortinga (Eds.), *Cross-Cultural contributions to psychology* (pp. 398-407). Lisse, Netherlands: Swets and Zeitlinger.

Hofstede, G. (1980). *Culture's consequences: International differences in work-related values.* Beverly Hills, CA: Sage Publications.

Hofstede, G. (1982). Dimensions of national cultures. In R. Rath, H. S. Asthana, D. Sinha, & J. B. H. Sinha, (Eds.) *Diversity and unity in cross-cultural psychology* (pp.173-187). Lisse, Netherlands: Swets and Zeitlinger.

Hofstede, G. (1983). Dimensions of national cultures in fifty countries and three regions. In J. B. Deregowski, S. Dziurawiec and R. C. Annis (Eds.), *Expiscations in cross-cultural psychology* (pp. 335-355). Lisse, Netherlands: Swets and Zeitlinger.

Hofstede, G. (1991). *Cultures and organisations: Software of the mind.* London: McGraw-Hill.

Hofstede, G., & Bond, M. H. (1984). Hofstede's culture dimensions: An independent validation using Rokeach's value survey. *Journal of Cross-Cultural Psychology, 15*(4), 417-433.

Hofstede, G., & Hofstede, G. J. (2005). *Cultures and Organisations: Software of the Mind: Intercultural cooperation and its importance for survival.* New York: McGraw Hill.

Hoge, J. (1985). Business and the media: Stereotyping each other. In R. E. Hiebert, and C. Reuss (Eds.), *Impact of Mass Media: Current Issues* (pp. 296-299). New York & London: Longman.

Holling, C. S. (1979). Myths of ecological stability: Resilience and the problem of failure. In C. F. Smart and W. T. Stanbury (Eds.), *Studies on Crisis Management* (pp. 97-109). Montreal: Butterworths.

Holling, C. S. (1986). The resilience of terrestrial ecosystems. In W. Clark & R. Munn (Eds.), *Sustainable development of the biosphere* (pp. 292-316). Cambridge: Cambridge University Press.

Hood, C. (1998). *The art of the state: culture, rhetoric, and public management.* New York: Clarendon Press.

Hoos, I. (1980). Risk assessment in social perspective. *Perceptions of Risk: Proceedings of the XVth Annual Meeting of the National Council on Radiation Protection and Measurements, 57-85.* Washington, DC: National Council on Radiation Protection.

Hossain, M., Perera, H.H.B., & Rahman, A.R. (1995). Voluntary disclosure in the Annual Reports of New Zealand companies. *Journal of International Financial Management and Accounting, 6*(1), 69–85.

Hronsky, J. J. F., & Houghton, K. A. (2001). The meaning of a defined accounting concept: regulatory changes and the effect on auditor decision making. *Accounting, Organisations and Society, 26*, 123-139.

Humphrey, C., Miller, P. and Scapens, R. W. (1993). Accountability and accountable management in the UK public sector. *Accounting, Auditing & Accountability Journal, 6*(3), 7-29.

Institute of Chartered Accountants in England and Wales. (1998). *Financial reporting of risk-proposals for a statement of business risk.* London: Author.

Institute of Chartered Accountants in England and Wales. (1999). *No surprises: The case for better risk reporting.* London: Author.

Institute of Chartered Accountants in England and Wales. (2002a). *No surprises: Working for better risk reporting.* London: Author.

Institute of Chartered Accountants in England and Wales. (2002b). *Prospective financial information: Guidance for UK directors.* London: Author.

Institute of Internal Auditors. (2000). *Internal auditing: Adding value across the board.* Altamonte Springs, FL: Author.

Jahoda, G. (1984). Do we need a concept of culture? *Journal of Cross-Cultural Psychology. 15*(2), 139-51.

Johnson, B. B. (1987). The environmentalism movement and grid/group analysis: A modest critique. In B. B. Johnson, & V. T. Covello (Eds.), *The social and cultural construction of risk* (pp. 147-178). Dordrecht, Holland: Reidel.

Johnson, B. B., & Covello, V. T. (Eds.). (1987). *The social and cultural construction of risk.* Dordrecht, Holland: Reidel.

Johnson E. J., & Tversky A. (1984). Representations of perceptions of risks. *Journal of Experimental Psychology: General, 113,* 55–70.

Jones, E. E., Worchel, S., Ooethals, O. R., & Grumet, J. F. (1971). Prior expectancy and behavioral extremity as determinants of attitude attribution. *Journal of Experimental Social Psychology, 7,* 59-80.

Jones, E. E., & Wortman, C. (1973). *Ingratiation: An attributional approach.* Morris-town, NJ: General Learning Press.

Jones, M. J., & Shoemaker, P.A. (1994). Accounting narratives: A review of empirical studies of content and readability. *Journal of Accounting Literature, 13,* 142–184.

Jones, M. J., & Xiao J. Z. (2003). Internet reporting: Current trends and trends by 2010. *Accounting Forum, 27,* 132-165.

Kasper, R. G. (1980). Perceptions of risk and their effects on decision making. In R. C. Schwing & W. A. Albers, Jr. (Eds.), *Societal risk assessment: How safe is safe enough?* (pp. 71-80). New York-London: Plenum Press.

Kasperson, R. E. (1992). The social amplification of risk: Progress in developing an integrative framework. In: S. Krimsky & D. Golding (Eds.), *Social theories of risk* (pp. 153-178). Westport, CT & London: Praeger.

Kasperson, J. X., Kasperson, R. E., Pidgeon, N., & Slovic, P. (2003). The social amplification of risk: Assessing fifteen years of research and theory. In N. Pidgeon, R. E. Kasperson & P. Slovic (Eds.), *The Social Amplification of Risk* (pp. 13-46). Cambridge: Cambridge University Press.

Kasperson, R. E., Renn, O., Slovic, P., Brown, H. S., Emel, J., Goble, R., Kasperson, J. X., & Patrick, S. (1988). The social amplification of risk: A conceptual framework. *Risk Analysis, 8*(2), 177-187.

Kasperson, R. E., Golding, D., & Tuler, S. (1992). Social distrust as a factor in siting harzardous facilities and communicating risks. *Journal of Social Issues. 48*(4), 161-187.

Kelley, H. H. (1967). Attribution theory in social psychology. In D. Levine (Ed.), *Nebraska Symposium on Motivation: Vol. 15,* (pp. 192-238). Lincoln: University of Nebraska Press.

Kimmelman, J. (2004). Valuing risk: The ethical review of clinical trial safety. *Kennedy Institute of Ethics Journal, 14*(4), 369-393.

Kitschelt, H. (1980) *Kernenergiepolitik. Arena eines gesellschaftlichen konflikts.* Frankfurt, Germany: Campus.

Kitzinger, J. (1990). Audience understandings of AIDS media messages: A discussion of methods. *Sociology of Health and Illness, 12*(3), 319-335.

Kitzinger, J. (1999). A sociology of media power: Key issues in audience reception research. In: G. Philo (Ed.), *Message received: Glasgow Media Group research 1993-1998* (pp 3-20). Essex: Addison Wesley Longman Limited.

Klandermanns, B. (1984). Mobilization and participation: Social psychological expansion of Resource Mobilization Theory. *American Sociological Review, 49,* 583-600.

Knechel, W. R., & Willekens, M. (2006). The role of risk management and governance in determining audit demand. *Journal of Business Finance and Accounting, 33*(9) & (10), 1344-1367.

Krippendorff, K. (1980). *Content analysis: An introduction to its methodology.* Beverly Hills: Sage.

Lapsley, I. (1988). Research in public sector accounting: An appraisal. *Accounting, Auditing and Accountability Journal, 1*(1 & 2), 21-33.

Lapsley, I. (1991). Accounting Research in the NHS. *Financial Accountability and Management, 7*(1), 1-14.

Lapsley, I. (1998). Reforming the Public Sector: Demon Accountants at Work? *Irish Accounting Review*, *5*(1), 115 – 131.

Lapsley, I. (2005). Special - June Pallot Tribute: June Pallot: From Architect to Accountant. *Accounting, Auditing and Accountability Journal, 18*(1), 160-163

Lapsley, I. (2007). Accountingization, trust and medical dilemmas. *Journal of Health Organisation and Management, 21*(4 & 5), 368-380.

Laughlin, R., & Broadbent, J. (1991). Accounting and juridification: An exploration with special reference to the public sector in the United Kingdom. *Proceedings of the Third Interdisciplinary Perspectives on Accounting Conference,* University of Manchester, *1,* 1.10.1-1.10.16.

Lee. T. R. (1981). The public's perception of risk and the question of irrationality. *Proceedings of the Royal Society of London, A(376),* 5-16.

Linsley, P. M., & Shrives, P. J. (2000). Risk management and reporting risk in the UK. *Journal of Risk, 3*(1), 115–129.

Linsley, P. M., & Shrives, P. J. (2005). Transparency and the disclosure of risk information in the banking sector. *Journal of Financial Regulation and Compliance, 13*(3), 205-214.

Linsley, P. M. and Shrives, P. J. (2006). Risk reporting: A study of risk disclosures in the Annual Reports of UK companies. *The British Accounting Review, 38*, 387-404.

Lowenthal, L. (1944). Biographies in popular magazines. In P. Lazarfield & F. Stanton (Eds.), *Radio Research (1942-43)* (pp. 188-205). New York: Duell, Sloan & Pearce.

Lowrance, W. (1979). The nature of risk. In R. C. Schwing & W. A. Albers, Jr. (Eds.), *Societal risk assessment: How safe is safe enough?* (pp. 5-14). New York-London: Plenum Press.

Luhmann, N. (1986). *Okologische Kommunikation.* Opladen: Westdeutscher Verlag.

Luhmann, N. (1990). Technology, environment, and social risk: A systems perspective. *Industrial Crisis Quarterly, 4,* 223-231.

Lupton, D. (1999). *Risk.* London & New York: Routledge.

Maali, B., Casson, P., & Napier, C. (2006). Social reporting by Islamic banks. *Abacus, 42*(2), 266-289.

McAdam, H. J., McCarthy, J., & Zald, M. N. (1988). Social movements. In N. Smelser (Ed.) *Handbook of Sociology* (pp. 695-737). Newbury Park, CA: Sage.

McCarthy, J. D., & Zald, M. N. (1977). Resource mobilization and social movements: A political theory. *American Journal of Sociology, 82*: 1212-1241.

McIvor, R., McHugh, M., & Cadden, C. (2002). Internet technologies: Supporting transparency in the public sector. *International Journal of Public Sector Management, 15*(3), 170 – 187.

Malaysian Accounting Standards Board. (2004). *Islamic Financial Reporting Standards FRS i-1$_{2004}$.* Kuala Lumpur, Malaysia: Author.

Marin, A. (1992). Cost and benefits of risk reduction. Appendix to *Risk: analysis, perception and management.* London: Royal Society.

Markowitz, J. (1991). *Kommunikation uber risiken: Eine problemskizze.* Unpublished manuscript, University of Bielefeld, Germany.

Mazur, A. (1985). Bias in risk-benefit analysis. *Technology in Society, 7*, 25-30.

Meyer-Abich, K. M. (1989). Von der wohlstandsgesellschaft zur risikogesellschaft. Die gesellschaftliche bewertung industriewirtschaftlicher risiken. *Aus politik und zeitgeschichte, 36*, 31-42.

Miller, D. (1995). The media and Northern Ireland: Censorship, information management and the broadcasting ban. In: G. Philo (Ed.), *Glasgow Media Group Reader Vol. 2: Industry, Economy, War and Politics* (pp. 45-75). London: Routledge.

Miller, G. S. (2006). The press as a watchdog for accounting fraud. *Journal of Accounting Research, 44*(5), 1001-1033.

Milne, M.J., & Adler, R.W. (1999). Exploring the reliability of social and environmental disclosures content analysis. *Accounting, Auditing and Accountability Journal, 12*(2), 237–256.

Morgan, G., & Smircich, L. (1980). The case for qualitative research. *Academy of Management Review 5*(4), 491-500.

Nagy, A. L., & Cenker, W. J. (2002). An assessment f the newly defined internal audit function. *Managerial Auditing Journal, 17*(3), 130-137.

National Research Council, Committee on the Institutional Means for Assessment of Risks to Public Health (NRC). (1983). *Risk assessment in the Federal Government: Managing the process.* (Reprinted 1992). Washington DC: National Academy Press.

Neidermeyer, A. A., & Neidermeyer, P. E. (2005). Audit anticipation: Does it impact job performance? *Managerial Auditing Journal, 20*(1), 19-29.

Nelkin, D., & Pollak, M. (1982). *The atom besiege: Antinuclear movements in France and Germany.* Cambridge, MA: MIT Press.

Pallot, J. (1992). Elements of a theoretical framework for public sector accounting. In *Accounting, Auditing and Accountibility Journal, 5*(1), 38-59.

Parker, L., & Gould, G. (1999). Changing public sector accountability: Critiquing new directions. *Accounting Forum, 23*(2), 109–135.

Peatman, J. G. (1944). Radio and popular music. In P. Lazarfield & F. Stanton (Eds.), *Radio Research (1942-43)* (pp. 335-393). New York: Duell, Sloan & Pearce.

Perrow, C. (1984). *Normal accidents: Living with high-risk technologies.* New York: Basic Books.

Pettigrew, A. M. (1979). On studying organisational cultures. *Administrative Science Quarterly, 24,* 570-581.

Philo, G. (1999). Conclusions on media audiences and message reception. In: G. Philo (Ed.), *Message received: Glasgow Media Group research 1993-1998* (pp 282-288). Essex: Addison Wesley Longman Limited.

Pilgrims Fund. (1996-2003). *Annual Report.* Kuala Lumpur, Malaysia: Author.

Power, M. (1997). *The audit society: rituals of verification.* Oxford: Oxford University Press.

Power, M., & Laughlin, R. (1992). Critical theory and accounting. In M. Alvesson, & H. Wilmott (Eds.), *Critical Management Studies* (pp:113-135). London: Sage.

Power, M., Laughlin, R., & Cooper, D. (2003). Accounting and critical theory. In M. Alvesson, & H. Willmott (Eds.), *Studying Management Critically* (pp.132-156). London: Sage.

Rayman-Bacchus, L. (2003). Contextualising corporate governance. *Managerial Auditing Journal, 18*(3), 180-192.

Rayner, S. (1987). Risk and relativism in science for policy. In B. B. Johnson & V. T. Covello (Eds.), *The social and cultural construction of risk* (pp. 5-23). Dordrecht, Holland: Reidel.

Renn, O. (1992a). Concepts of risk: A classification. In S. Krimsky & D. Golding (Eds.), *Social theories of risk* (pp. 53-79). Westport, Connecticut & London: Praeger.

Renn, O. (1992b). Risk communication: Towards a rational dialogue with the public. *Journal of Hazardous Materials, 29,* 465-519.

Renn, O. (1992c). The social arena concept of risk debates. In S. Krimsky & D. Golding (Eds.), *Social theories of risk* (pp.179-196). Westport, Connecticut & London: Praeger.

Renn, O., Burns, W.J., Kasperson, J.X., Kasperson, R.E., & Slovic, P. (1992). The social amplification of risk: Theoretical foundations and empirical applications. *Journal of Social Issues, 48*(4), 137-160.

Rice, R. (1992). Task analyzability, use of new media, and effectiveness: a multi-site exploration of media richness. *Organisation Science 3*(4), 475-500.

Robb, S. W. G., Single, L. E., & Zarzeski, M. T. (2001). Nonfinancial disclosures across Anglo-American countries. *Journal of International Accounting,* 10, 71– 83.

Rohrmann, B. (1990). Analyzing and evaluating the effectiveness of risk communication programs. Julich, Germany: Programmgruppe Mensch-Umwelt-Technik des Forschungszentrums Julich.

Ross, L. (1977). The intuitive psychologist and his shortcomings: Distortions in the attribution process. In L. Berkowitz (Ed.), *Advances in Experimental Social Psychology, Vol. 10* (pp. 173-220). New York: Academic Press.

Ross, M., & Fletcher, G. J. O. (1985). Attribution and social perception. In G. Lindsey & E. Aronson (Eds.), *The Handbook of Social Psychology, Volume 2* (pp 73-114). Reading, MA: Addison-Wesley Publishing Co.

Rowe, F., & Struck, D. (1999). Cultural values, media richness and telecommunication use in an organisation *Accounting, Management and Information Technologies, 9*(3), 161-192.

Royal Society for the prevention of accidents. (1981). *The assessment and perception of risk.* London: Author.

Royal Society for the prevention of accidents. (1983). *Risk Assessment: A Study Group Report.* London: Author.

Ryan, B., Scapens, R.W., & Theobald, M. (2002). *Research method & methodology in finance and accounting* (2nd ed.). London: Thomson.

Samuels, W. J. (2001). The political-economic logic of world governance. *Review of Social Economy, LIX*(3), 273-366.

Saren, M., & Beech, N. (2003). Research philosophy course notes. Glasgow: University of Strathclyde.

Schein, E. H. (1985). *Organisational culture and leadership.* San Francisco, CA: Jossey-Bass.

Schwarz, M., & Thompson, M. (1990). *Divided we stand: Redefining politics, technology and social choice.* Philadelphia: University of Pennsylvania Press.

Schwing, R. C., & Albers, W. A. Jr. (Eds.). (1980). *Societal risk assessment: How safe is safe enough?* New York-London: Plenum Press.

Securities and Exchange Commission. (1997). *Disclosure of accounting policies for derivative financial instruments and derivative commodity instruments and disclosure of qualitative and quantitative information about market risk inherent in derivative financial instruments, other financial instruments, and derivative commodity instruments.* Release Nos. 33-7386; 34-38223. Washington, D. C.: Author.

Shrand, C. M., & Elliott, J. A. (1998 September). Risk and financial reporting: A summary of the discussion at the 1997 AAA/FASB conference. *Accounting Horizons, 12*(3), 271-282.

Slovic, P. (2000). *The perception of risk (Risk, society & policy).* London & Sterling, Virginia: Earthscan Publications Ltd.

Slovic, P., Fischhoff, B., & Lichtenstein, S. (1981). Perceived risk: Psychological factors and social implications. *Proceedings of the Royal Society of London, A(376),* 17-34.

Solomon, J. F., Solomon, A., Norton, S. D., & Joseph, N. L. (2000). A conceptual framework for corporate risk disclosure emerging from the agenda for corporate governance reform. *British Accounting Review, 32*(4), 447-478.

Spira, L. F. & Page, M. (2003). Risk management: The reinvention of internal control and the changing role of internal audit. *Accounting, Auditing and Accountability Journal, 16*(4), 640-661.

Stallings, R. A. (1987). Organisational change and the sociology of disaster. In R. R. Dynes, B. de Marchi, & C. Pelanda (Eds.) *Sociology of Disasters* (pp. 240-257). Milan, Italy: Franco Angeli.

Sternberg, E. (1997). *Corporate governance: Accountability in the marketplace.* London: The Institute of Economic Affairs.

Temple, P. (1992). Islamic banking: Principles as well as roots. *Accountancy, 110*(1187), 46-47.

Thompson, M. (1979). Aesthetics of risk: Culture or context. In R. C. Schwing & W. A. Albers, Jr. (Eds.), *Societal risk assessment: How safe is safe enough?* (pp. 273-285). New York-London: Plenum Press.

Thompson, M., Ellis, R. J., & Wildavsky, A. (1990). *Cultural theory.* Boulder, Colorado: Westview Press Inc.

Thomson, I., & Stewart, M. (2003, May). *Credit units, risk management, regulation and cultural theory.* Paper presented at the Irish Accounting and Finance Association Conference, Galway, Ireland.

Thomson, I. (2004). *Cultural Questionnaire.* Accounting and risk class exercise. Glasgow: University of Strathclyde.

Tricker, R. I. (1984). Corporate governance: Practices, procedures and powers in British companies and their Boards of Directors. Aldershot: Gower Publishing Company.

Trompenaars, F. (1993). *Riding the waves of culture: Understanding cultural diversity in business.* London: Nicholas Brealey Publishing.

Unerman, J. (2000). Methodological issues: Reflections on quantification in corporate social reporting content analysis. *Accounting, Auditing and Accountability Journal 13*(5), 667–680.

Unerman, J., & Bennett, M. (2004). Increased stakeholder dialogue and the internet: Towards greater corporate accountability or reinforcing capitalist hegemony? *Accounting, Organisations and Society, 29*, 685-707.

Van Peursem, K. (2004). Internal auditor's role and authority: New Zealand evidence. *Managerial Auditing Journal, 19*(3), 378-393.

Watts, N. S. J. (1987). Mobilisierungspotential und gesellschaftspolitische Bedeutung der neuen sozialen Bewegungen. In R. Roth and D. Rucht (Eds.), *Neue soziale Bewegungen in der Bundesrepublik Deutschland* (pp. 47-67). Frankfurt, Germany: Campus.

Weber, E. U., & Hsee, C. (1998, September). Cross-cultural differences in risk perception, but cross-cultural similarities in attitudes towards perceived risk. *Management Science, 44*(9), 1205-1217.

White, F., & Hollingsworth, K. (1999). *Audit, accountability and government.* Oxford: Oxford University Press.

Whysall, P. (2000). Retailing and the internet: A review of ethical issues. *International Journal of Retail & Distribution Management, 28*(11), 481-489.

Wildavsky, A. (1979). No risk is the highest risk of all. *American Scientist, 67,* 32-37.

Wildavsky, A., & Dake, K. (1990). Theories of risk perception: Who fears what and why? *Daedalus, 119*(4), 41-60.

Wilde, G. (1976). *The risk compensation theory of accident causation and its practical consequences for accident prevention.* Paper presented to the annual meeting of the Osterreichische Gesellschaft fur Unfallchirurgies, Salzburg, Austria.

Wilkinson, J. W., Cerullo, M. J., Raval, V, & WongOnWing, B. (1999). *Accounting information systems: Essential concepts and applications* (4th ed.). New York: John Wiley and Sons.

Wynne, B. (1983). Redefining the issues of risk and public acceptance – The social viability of technology. *Futures, 15,* 13-32.

Yin, R. (2003). *Case study research: Design and Methods.* (3rd ed.). Applied Social Research Methods Series (5). London: Sage.

Zmud, R., Lind, M., & Young, F. (1990). An attribute space for organisational communication channels. *Information Systems Research, 1*(4), 440-457.

WEBLIOGRAPHY

Adams, J. (1999). *Risk, freedom and responsibility.* Retrieved September 12, 2005 from http://www.geog.ucl.ac.uk/~jadams/PDFs/risk,%20freedom%20&%20responsibility.pdf

Armed Forces Fund sees no reason to reduce its investment in the stock market. (1998, November 28). *Utusan Malaysia.* Retrieved May 28, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=1998&dt=1128&pub=utusanexpress&sec=business&pg=bs_07.htm&arc=hive

Armed Forces Fund pays 12% dividend and bonus amounting to RM389.4 million. (2000, March 15). *Utusan Malaysia.* Retrieved May 28, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=0315&pub=utusanmalaysia&sec=dalam%5Fnegeri&pg=hn_01.htm&arc=hive

Armed Forces Fund to top up disability pension for armed forces personnel. (2000, December 8). *Utusan Malaysia.* Retrieved May 28, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=1208&pub=utusan_express&sec=home%5Fnews&pg=hn_06.htm&arc=hive

Ayub, S. (n.d.). *Memorandum to the Pilgrims Fund for increasing pilgrimage costs and urging Pilgrims Fund to revert back to its original objectives.* PAS Central Consumer Association Committee. Retrieved October 20, 2006 from http://detik.daily.tripod.com/okta/1okt_3.htm

Bewitt, A. (2005, December 7). The impact of International Financial Reporting Standards. Speech excerpt as quoted by Ramly, R. *Kesan Standard Perakaunan Baru* in the Malay daily newspaper. *Utusan Malaysia.* Retrieved March 12, 2006, from http://www.utusan.com.my/utusan/archive.asp?y=2005&dt=1207&pub=Utusan_Malaysia& sec=Rencana&pg=re_05.htm

Boholm, A. (1996) *Summary of meeting paper: The 1996 Annual Meeting of the Society for Risk Analysis – Europe: The many faces of 'The cultural theory of risk': An anthropological critique.* Institute for Advanced Studies in Social Anthropology, University of Gothenburg, Sweden, and Centre for Risk Research, Stockholm School of Economics, Stockholm, Sweden. Retrieved August 25, 2004 from http://www.staff.ncl.ac.uk/les.gofton/Boholm.htm

Broadbent, J., & Laughlin, R. (2005). Organisational and accounting change: Theoretical and empirical reflections and thoughts on a future research agenda. *Journal of Accounting and Organisational Change, 1*, 7-26. Retrieved June 13, 2006, from http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=/published/emeraldfulltextarticle/pdf/3150010101.pdf

Burke Johnson, R., & Onwuegbuzie, A. J. (2004). Mixed methods research: A research paradigm whose time has come. *Educational Researcher, Vol. 33*, (7), 14-26. Retrieved June 24, 2008 from https://www.aera.net/uploadedFiles/Journals_and_Publications/Journals/Educational_Researcher/Volume_33_No_7/03ERv33n7_Johnson.pdf

Carter, C., & Mueller, F. (2005). *The colonisation of strategy: Financialisation in a post-privatisation context.* Retrieved August 31, 2007 from http://www/st-andrews.ac.uk/management/files/carter_and_mueller_cpa.pdf

Christensen, M. (2001). *Public sector accrual accounting: who made the Emperor's clothes?* Adelaide: APIRA. Retrieved August 31, 2007 from http://visar/csustan.edu/papers/Christensen143.pdf

Contributor: Will we get as what the EPF contributors get? (2000, April 4). *Utusan Malaysia.* Retrieved May 28, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=0404&pub=utusanmalaysia&sec=forum&pg=fo_03.htm&arc=hive

Cultural theory of risk. Retrieved October 16, 2007 from http://en.wikipedia.org/wiki/Cultural_Theory_of_risk

de Haan, J., Amtenbrink, F., & Eijffinger, S.C.W. (1998). *Accountability of central banks: Aspects and quantification.* Retrieved September 4, 2007 from http://arno.uvt.nl/show.cgi?fid=3713

Douglas, M. (n.d.). A history of grid and group cultural theory. Retrieved November 21, 2006 from http://www.chass.utoronto.ca/epc/srb/cyber/douglas1.pdf

Ensuring competitive returns for depositors. (2005). Retrieved March 10, 2006 from http://66.249.93.104/search?q=cache:Y7WIT5G9xJwJ:www.tabunghaji.gov.my/th/berita/feb2005.pdf+risiko+tabung+haji&hl=en&gl=uk&ct=clnk&cd=1&client=firefox-a

Fisher, A., Pavlova, M., & Covello, V. (Eds.). (1991). Evaluation and effective risk communications: Workshop proceedings (EPA/600/9-90/054). Retrieved March 15, 2006 from http://www.health.gov/environment/casestudies/csapp3.htm

Georgakopoulos, G., & Thomson, I. (2006, July). *An industry in crisis: Risk, reflexibility, sub-politics and accountability process in salmon farming.* Paper submitted to the Eighth Interdisciplinary Perspectives on Accounting Conference, Cardiff. Retrieved June 13, 2008 from http://www.caerdydd.ac.uk/carbs/news_events/events/past/conferences/ipa/ipa_papers/00250.pdf

Heald, D., & Geaughan, N. (2001). *Accounting and control in executive agencies and executive non-departmental public bodies (NDPBs) in Scotland.* (ACCA Research Report Number 68). London: Certified Accountants' Educational Trust. Retrieved from http://64.233.183.104/search?q=cache:VMv7D7pKqvkJ:www.davidheald.com/publications/23851.pdf+accountingisation+conform+values&hl=en&ct=clnk&cd=4&gl=uk&client=firefox-a

In contrast to the principles held by The Body Shop, L'Oréal has been criticised for animal testing by animal rights charity PETA, although it says it stopped animal testing for its entire range of cosmetics in 1989 but it is compelled by European law to test some products on animals. *Brand Republic.* Retrieved October 17, 2007 from http://www.bandt.com.au/news/46/0c03e646.asp

Kam, S. (2005). Integrity is the word. *The Star.* Retrieved March 13, 2006 from http://www.sun2surf.com/articlePrint.cf,?id=8552

L'Oréal has admitted to testing new products on animals. Retrieved October 17, 2007 from http://www.indiescribe.com/news/index.html

Lodge, M. (n.d.). *Implementing the Lisbon strategy: Policy co-ordination through 'open' methods: Comparing new modes of governance in action: the open method of co-ordination in pensions and information society.* ESRC Seminar Series. Retrieved August 31, 2005 from www.laws.qmul.ac.uk/lisbon

Low Pilgrims Fund bonuses – it's inappropriate! (2001, August 29). *Utusan Malaysia.* Retrieved November 30, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=0829&pub=utusanmalaysia&sec=muka%5Fhadapan&pg =mh_01.htm&arc=hive

Malaysian Accounting Standards Board (n.d.). Retrieved November 30, 2004 from http://www.masb.org.my/masbstd_aas01.htm

McGee, D. (2002). *The overseers-public accounts committees and public spending.* London: Pluto Press. Retrieved August 31, 2006 from http://ideas.repec.org/p/wbk/wbrwps/3613.html

Minister: Do not fault me for incident leading to PF losses! (2002, April 1). *Utusan Malaysia.* Retrieved February 2, 2005 from http://www.utusan.com.my/utusan/archive.asp?y=2002&dt=0401&pub=Utusan_Malaysia&sec=Muka_Hadapan&pg=mh_04.htm

No necessity for Anti-Corruption Agency to investigate Pilgrims Fund. (2001, September 27). *Utusan Malaysia.* Retrieved October 2, 2006 from http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=0927&pub=utusan_malaysia&sec=forum&pg=fo_03.htm&arc=hive

Palmlund, I. (n.d.). Chapter 8 Social drama and risk evaluation (pp. 197-198). Retrieved September 15, 2007 from http://www.questia.com/PM.qst?a=o&d=29023268

Power, M. (2004) *The risk management of everything: Rethinking the politics of uncertainty.* London: Demos. Retrieved March 2, 2006 from http://books.google.com/books?hl=en&lr=&id=ju3Co_hw55AC&oi=fnd&pg=PA7&dq=mike+po wers+risk+is+everything&ots=zv7KsGNI8D&sig=BS2U8m-NDP-TfDTsagkWx0sU 1w#PPA7,M1

Pilgrims Fund excellent achievement. (1998, July 29). *Utusan Malaysia.* Retrieved May 28, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=1998&dt=0729&pub=utusanmalaysia&sec=rencana&pg=ot_02.htm&arc=hive

Pilgrims Fund has deviated from its incorporation philosophy. (n.d.). Retrieved May 28, 2004 from http://server.com/WebApps/db-view.cgi?id=97302

Pilgrims Fund investment panel appointed on credibility. (2001, October 11). *Utusan Malaysia.* Retrieved May 28, 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=1011&pub=utusanexpress&sec=parlimen&pg=pt_04.htm&arc=hive

Pilgrims Fund newly planned withdrawals system to avoid withdrawals fraud. (2001, August 29). *Utusan Malaysia.* Retrieved May 28. 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=0829&pub=utusanmalays ia&sec=muka%5Fhadapan&pg=mh_01.htm&arc=hive

Pilgrims Fund RM8.965 million fraud case in August: Police after 3 men. (2001, November 14). *Utusan Malaysia.* Retrieved May 28. 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2001&dt=1114&pub=utusan malaysia&sec=muka%5Fhadapan&pg=mh_08.htm&arc=hive

Public service quality award. Retrieved October 30, 2006 from http://www.mampu.gov.my/pdf/fail%20anugerah /akpa.pdf

Renn, O., & Kastenholz, H. (2000, September). Risk communication chemical products risks. An OECD background paper. In *Risk communication for chemical risk management.* OECD Workshop, 18-20 September, Berlin. Retrieved March 23, 2005 from www.bfr.bund.de/cm/238/background_paper.pdf

Reply from AFF: SKOT to contact AFF for superannuation benefits. (2000, November 22). *Utusan Malaysia.* Retrieved May 28. 2004 from http://www.utusan.com.my/utusan/archive.asp?y=2000&dt=1122&pub=utusanmalays ia&sec=forum&pg=fo_05.htm&arc=hive

Sternberg, R., V. Sahgal, W. Woodley, & R. Pelizzo. (n.d.). *Scrutinizing public expenditures: Assessing the performance of public accounts committees.* Retrieved September 5, 2006 from http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/05/16/000090341_20050516071440/Rendered/PDF/wps3613.pdf

Steward, F. (2001). Shaping technological trajectories through innovation networks and risk networks: Investigating the food sector. In O. Jones, S. Conway & F. Steward (Eds.). *Social interaction and organisational change: Aston Perspectives on Innovation Networks.* London: Imperial College Press. pp. 193-210. Retrieved June 13, 2008 from http://www.sbs.ox.ac.uk/NR/rdonlyres/4B030E9D-8A64-4173-B50D-EFC4F49BE8D3/940/scitechseminar20040218b.pdf

Suler, J. (1995). Using Interviews in Research Retrieved September 5, 2007 from http://www.rider.edu/~suler/intervie ws.html

Sydenstricker-Neto, J. (n.d.). *Research design and mixed-method approach: A hands-on experience.* Retrieved June 24, 2008 from http://www.socialresearchmethods.net/tutorial/Sydenstricker/bolsa.html.

The extent to which the Body shop proposed not to have tested its products on animals are questioned. Retrieved October 17, 2007 from www.jonentine.com/reviews/Body_Shop Roddick audit .doc

The first Islamic Bank originated in Egypt in 1963, at almost the same time when the Pilgrims Fund was established as a Post Offices savings. Retrieved October 19, 2007 from http://www.escwa.org.lb/information/publications/edit/upload/ead-05-2.pdf

Thomson, P. (1999, November-December). *Reading the work of school administrators with the help of Bourdieu: getting a 'feel for the game'.* Paper presented at the Australian Association for Research in Education and New Zealand Association for Research in Education Joint Conference. Melbourne. Retrieved May 25, 2005 from http://www.aare.edu.au/99pap/tho99060.htm

Thomson, I., & Veitch, K. (2000). *Evaluating New Public Financial Management in the NHS: The Reported Physiotherapy Experience.* BAA Scottish Conference, Stirling. Retrieved August 31, 2007 from http://66.102.1.104/scholar?hl=en&lr=&q=cache:D4IFjvDQapgJ:www.abdn.ac.uk/~ acc 025/web_pgs/public/dept/baas/thomson1.doc+accountingisation

Thomson, I., & Veitch, K. (2000). *Evaluating new public financial management in the NHS: The reported physiotherapy experience.* BAA Scottish Conference, Stirling. Retrieved August 31, 2007 from http://66.102.1.104/scholar?hl=en&lr=&q=cache:D4IFjvDQapgJ:www.abdn.ac.uk/~acc025/web_pgs/public/dept/baas/thomson1.doc+accountingisation

Wikipedia.com answers, the blind men and an elephant. Retrieved October 16, 2007 from http://www.answers.com/topic/blind-men-and-an-elephant

Wildavsky, A. Riskless Society. Retrieved August 18, 2005 from http://www.econlib.org/lib rary/Enc/RisklessSociety.html

APPENDICES

Appendix A1: Table showing risk disclosure issues in the Auditor-General's Certificate and Report and replied to by the Pilgrims Fund management in 1996 with the Pilgrims Fund coding grid.

Risk disclosure sentences	Classification of risk
There was non compliance with the International Accounting Standards Number 4 regarding depreciation of assets.	Integrity risk
The accounts of two subsidiaries undergoing liquidation were not audited.	Operations risk
Non compliance with rules and regulations – signing agreement prior to board's approval.	Integrity risk

Appendix A2: Table showing risk disclosure issues in the Pilgrims Fund's Notes to the Accounts for the year 1996, according to the coding grid.

Risk disclosure sentences	Classification of risk
The accounts have been prepared according to approved accounting standards and adjusted according to *Shari'ah laws*.	Operations risk
According to *Shari'ah law* the income from *Shari'ah*-based investments were recognised on cash basis and the income from dividends were accounted for when received.	Operations risk
Included in the Properties were seven pieces of leasehold land without title deeds.	Operations risk
The basis of calculation of business *Zakat* is in accordance with the advice of Bank Islam Malaysia Berhad's *Shari'ah* Committee which takes into account profitability and business capital.	Operations risk
Investments in listed and unlisted shares include problem companies.	Operations risk

Appendix A3: Table showing risk disclosure issues in the Auditor-General's Certificate and Report and replied to by the Pilgrims Fund management in 1997 with the Pilgrims Fund coding grid.

Risk disclosure sentences	Classification of risk
There was non compliance with the International Accounting Standards Numbers 27 and 28 in terms of Consolidation of Accounts.	Integrity risk
There was non reconciliation of Bank Statements and Cash Book of RM209,756.	Integrity risk
There was diminution in investments made in 1990, by RM14.98 million written off in 1997.	Financial risk
There was non reconciliation of Members' Saving Funds balance with the individual account balances amounting to RM1.49 million.	Integrity risk
There was non compliance with International Accounting Standards Number 1 and 18 by overstatement of income and expenditure by RM7.02 million due to occupation of its own rental property.	Integrity risk
There is no loan agreement for a loan given to a company.	Integrity risk.
Pilgrims Fund withheld *Zakat* which should be paid to the relevant authorities.	Integrity risk

Appendix A4: Table showing risk disclosure issues in the Pilgrims Fund's Notes to the Accounts for the year 1997, according to the coding grid.

Risk disclosure sentences	Classification of risk
The accounts have been prepared according to approved accounting standards and adjusted according to *Shari'ah laws*.	Operations risk
According to *Shari'ah law* the income from *Shari'ah*-based investments were recognised on cash basis and the income from dividends are accounted for when received.	Operations risk
The basis of calculation of business *Zakat* is in accordance with the advice of Bank Islam Malaysia Berhad's *Shari'ah* Committee which takes into account profitability and business capital.	Operations risk
Included as cash in the bank of one of the subsidiary companies is a sum of money held under the Housing Developer Accounts according to Housing Developer Guidelines 1991.	Operations risk
Debtors amount include a deposit for shares in a project with an Indonesian company.	Operations risk
Special investment certificates in a subsidiary company have been pledged as collateral for bank guarantee.	Operations risk
Some properties have been pledged for long term financing facilities for subsidiary companies.	Operations risk
According to a joint venture agreement with PKNNS, a subsidiary was established to develop a piece of land which title belongs to PKNNS. In return, PKNNS will issue a non-withdrawable power of attorney letter allowing the subsidiary company to develop the land.	Operations risk
Investments in listed and unlisted shares include problem companies.	Operations risk
Plantation development has been implemented on land in Mindanao, the Philippines of which the acquisition and registration of ownership has not been completed.	Integrity risks.
The Group has calculated its share equity in joint venture companies based on unaudited accounts.	Integrity risk

Appendix A5: Table showing risk disclosure issues in the Armed Forces Fund's Notes to the Accounts for the year 1996, according to the coding grid

Risk disclosure issues	Classification of risk
The accounts of the Armed Forces Fund and the Group have been prepared under the historical cost convention modified to include the revaluation of certain assets of certain subsidiary companies and comply with approved accounting standards.	Operations risk
The management accounts of two subsidiaries, Boustead Holdings Berhad and Emastulin Automobile Sendirian Berhad were used to prepare the consolidated accounts.	Integrity risk
The accounts of another two companies, Tatab Concessioners Sendirian Berhad and Emas Pandu Sendirian Berhad are not consolidated as the accounts of these companies are not available. The directors are of the opinion that the effect of non-consolidation of the accounts of these companies will not be material.	Integrity risk
Included in the Net Book Value of Fixed Assets of subsidiary companies is an amount of RM1,352,000 representing assets acquired under hire purchase and finance lease agreements.	Operations risk
Title deeds to certain leasehold land and buildings owned by certain subsidiary companies have not been obtained. However, the rights to the leasehold land and buildings have been charged to the banks for term loan and overdraft facilities granted to the respective subsidiary companies.	Integrity risk
The bank loans are secured by charges over certain properties of certain subsidiary companies. The block discounting loans of a subsidiary company are secured by way of assignment of hire purchase agreements of that company.	Operations risk
The bank overdrafts of certain subsidiary companies are secured by fixed and floating charges over all the assets of the subsidiary companies.	Operations risk
The total in the Members Contribution Account as at 31 December 1996 amounted to RM3,194,438,000. This is arrived at after adding contributions received during the year, crediting dividends at 7% per annum, dividends on withdrawal at 7% per annum, bonus at 6.25% per annum and deducting withdrawals during the year.	Operations risk
The Armed Forces Fund's general reserve is maintained in accordance with Section 11(2) of the Armed Forces Fund Act 1995.	Operations risk
The statutory reserve is maintained in compliance with the provisions of the Banking and Financial Institutions Act 1989, and is not distributable as cash dividends.	Operations risk

Appendix A5: Table showing risk disclosure issues in the Armed Forces Fund's Notes to the Accounts for the year 1996, according to the coding grid (continued)

The profits retained in the Group in respect of subsidiary companies amounting to RM399,238,000 and RM335,518,000 in respect of associated companies are not distributable to members of Armed Forces Fund until they are received by Armed Forces Fund in the form of dividends.	Operations risk
The Group has not accounted for the estimated timing differences arising from tax savings in subsidiary and sub-subsidiary companies which would result in a debit to the deferred tax balances.	Operations risk
Deferred income represents transfer of ownership of assets from the Ministry of Defence to a subsidiary company.	Operations risk
The grant of RM26,000,000 is an annual grant received from the government of Malaysia under the provision of Section 23 and Section 3(1A) of the Armed Forces Fund (Amendment) Act 1995.	Operations risk
Under the Income Tax (Exemption) (Number 5) Order 1974, Armed Forces Fund is exempted from taxation on income received from investments, other than rental, made pursuant to Section 15, Armed Forces Fund (Amendment) Act 1995.	Operations risk
Included in capital expenditure authorised and contracted are RM65,000,000 for the construction of a distribution centre in Klang and also a privatisation project for development of family quarters for the Ministry of Defence amounting to RM136,789,000.	Operations risk
On 4 December 1996, the Foreign Investment Committee had approved the sale of Emastulin Automobile Sendirian Berhad, a wholly owned subsidiary of Armed Forces Fund to Boustead Holdings Berhad as follows: i. Boustead Holdings Berhad will acquire the entire paid-up capital of 17,000,000 units of Emastulin Automobile Sendirian Berhad from Armed Forces Fund for a total cash consideration of RM8,103,000. ii.Boustead Holdings Berhad will not be required to appoint an Independent Advisor for its directors, its independent shareholders and its minority shareholders in relation to the above mentioned acquisition.	Operations risk
On 12 May 1997, the Minister of Defence, Syed Hamid bin Syed Jaafar announced a 5% special bonus to members of AFF, based on the outstanding performance and results achieved by AFF in the financial year 1996 as compared to previous years. This special bonus will be paid in the form of unit trusts which are not redeemable until a member reaches the age of fifty, or upon termination of service, or upon retirement from service.	Operations risk

Appendix A6: Table showing risk disclosure issues in the Auditor-General's Certificate and replied to by the Armed Forces Fund management in 1997 with the Armed Forces Fund coding grid

Risk disclosure sentences	Classification of risk
It was found that several balances and transactions between entities in the group were either erroneously reconciled or missed during preparation of the group accounts. This is because supporting schedules were not properly tallied. It was found that the account classification of the Armed Forces Fund and its subsidiaries were not uniform. Amongst the errors and the misses are as follows:	Operations risk
Fixed deposits in licensed banks amounting to RM752.14 million were understated by RM244.95 million. The balance of the fixed deposit account in a subsidiary company amounting to RM315.50 million has been overstated. This account should have a zero balance. This is because of reconciliation errors of RM244.95 million to the fixed deposit accounts in the licensed banks and missing the reconciliation of the RM70.55 million to the deposit balance under current liabilities.	Operations risk
The total amount of Cash and balance at bank shown in the group accounts is RM210.33 million. This amount is overstated because the Armed Forces Fund erroneously took into account Cash and bank balance in a sub-subsidiary amounting to RM24.32 million.	Operations risk
The balance of the Profit and Loss Appropriation account in the group accounts amounting to RM1,669.55 million was understated by RM46.69 million. This is because of an error in taking into account RM29.59 million in the Financing Fund and RM20.10 million in the deferred income account.	Operations risk
Cosmos Construction was an associate company with an equity holding of 50% and not a subsidiary as stated in Note 4 to the Accounts. According to the Note, the Pilgrims Fund holds 66% equity in the company. The profits/(losses) of this company was not taken into consideration in the group account according to IAS 28. The account for 1997 has not been audited.	Operations risk

Appendix A7: Table showing risk disclosure issues in the Armed Forces Fund's Notes to the Accounts for the year 1997, according to the coding grid

Risk disclosure sentences	Classification of risk
The accounts of Armed Forces Fund and the Group have been prepared under the historical cost convention modified to include the revaluation of certain assets of certain subsidiary companies and comply with approved accounting standards.	Operations risk
The management accounts of two subsidiaries, Boustead Holdings Berhad and Emastulin Automobile Sendirian Berhad were used to prepare the consolidated accounts.	Integrity risk
The accounts of another two companies, Tatab Concessioners Sendirian Berhad and Emas Pandu Sendirian Berhad are not consolidated as the accounts of these companies are not available. The directors are of the opinion that the effect of non-consolidation of the accounts of these companies will not be material.	Integrity risk
Included in the Net Book Value of Fixed Assets of subsidiary companies is an amount of RM1,043,000 representing assets acquired under hire purchase and finance lease agreements.	Operations risk
Title deeds to certain leasehold land and buildings owned by certain subsidiary companies have not been obtained. However, the rights to the leasehold land and buildings have been charged to the banks for term loan and overdraft facilities granted to the respective subsidiary companies.	Integrity risk
The bank loans are secured by charges over certain properties of certain subsidiary companies. The block discounting loans of a subsidiary company are secured by way of assignment of hire purchase agreements of that company.	Operations risk
The bank overdrafts of certain subsidiary companies are secured by fixed and floating charges over all the assets of the subsidiary companies.	Operations risk
The total in the Members Contribution Account as at 31 December 1997 amounted to RM3,420,564,000. This is arrived at after adding contributions received during the year, crediting dividends at 7% per annum, dividends on withdrawal at 7% per annum, bonus at 4.5% per annum and deducting withdrawals during the year.	Operations risk
Armed Forces Fund's general reserve is maintained in accordance with Section 11(2) of the Armed Forces Fund Act 1995.	Operations risk
The statutory reserve is maintained in compliance with the provisions of the Banking and Financial Institutions Act 1989, and is not distributable as cash dividends.	Operations risk

Appendix A7: Table showing risk disclosure issues in the Armed Forces Fund's Notes to the Accounts for the year 1997, according to the coding grid (continued)

The profits retained in the Group in respect of subsidiary companies amounting to RM331,107,000 and RM376338,000 in respect of associated companies are not distributable to members of Armed Forces Fund until they are received by Armed Forces Fund in the form of dividends.	Operations risk
The Group has not accounted for the estimated timing differences arising from tax savings in subsidiary and sub-subsidiary companies which would result in a debit to the deferred tax balances.	Operations risk
Deferred income represents transfer of ownership of assets from the Ministry of Defence to a subsidiary company.	Operations risk
The grant of RM26,000,000 is an annual grant received from the government of Malaysia under the provision of Section 23 and Section 3(1A) of the Armed Forces Fund (Amendment) Act 1995.	Operations risk
Under the Income Tax (Exemption) (Number 5) Order 1974, Armed Forces Fund is exempted from taxation on income received from investments, other than rental, made pursuant to Section 15, Armed Forces Fund' (Amendment) Act 1995.	Operations risk
Included in capital expenditure authorised and contracted are RM88,000,000 for the construction of a distribution centre in Klang and also a privatisation project for development of family quarters for the Ministry of Defence amounting to RM147,564,000.	Operations risk
On 4 December 1996, the Foreign Investment Committee had approved the sale of Emastulin Automobile Sendirian Berhad, a wholly owned subsidiary of Armed Forces Fund to Boustead Holdings Berhad as follows: i. Boustead Holdings Berhad will acquire the entire paid-up capital of 17,000,000 units of Emastulin Automobile Sdn Bhd from Armed Forces Fund for a total cash consideration of RM8,103,000. ii. Boustead Holdings Berhad will not be required to appoint an Independent Advisor for its directors, its independent shareholders and its minority shareholders in relation to the above mentioned acquisition. The duration to execute the above mentioned disposal has been extended to 21 June 1998.	Operations risk

Appendix A8: Table showing risk disclosure issues in the Auditor-General's Certificate and Report and replied to by the Armed Forces Fund management in 1998 with the Armed Forces Fund coding grid.

Risk disclosure sentences	Classification of risk
PERHEBAT's utilisation of the Entrepreneur Development Loan scheme to cover its deficits within the group was against the original purpose of the grant.	Integrity risk
The sale of one subsidiary, Emastulin Automobile Sendirian Berhad to Boustead Holdings Berhad was delayed resulting in a loss of RM10.85 million.	Operations risk

Appendix A9: Table showing Interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view.

Results if the questionnaires are given to persons from the four myths of rationality. (H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

	Beliefs
1	Problems in society come from people not following rules and procedures.
	H – Strongly agree. (Live within limits.)
	I – Disagree. (Risk taker – trial and error way of life; Nature benign. Encourages bold experimentation in the face of uncertainty. It encourages and justifies trial and error.)
	E – Disagree. (Risk averse – little respect for externally imposed rules.)
	F – Agree. (They principally believe in hierarchy but do not identify with the hierarchy to which they belong.)
2	It is important to manage resources effectively.
	H – Agree. (Nature is forgiving of most events but is *vulnerable* to an occasional knocking of the ball over the rim.)
	I – Strongly disagree. (Nature is benign.)
	E – Strongly agree. (Nature is a terrifyingly unforgiving place & the least jolt may trigger its complete collapse.)
	F – Disagree. (They see life as a lottery and are often unable to link harm to a concrete cause. Minimal control over their lives.)
3	Personal failures can be attributed to individual incompetence.
	H – Disagree. (Social relationships are hierarchical, with everyone knowing his/her place – strong group – extremely efficient for coordination with its coherent structure of subordination and command.)
	I – Strongly agree. (Risk taker – self-made, trial and error way of life.)
	E – Disagree. (We work as a group; we don't care much about individualism.)
	F – Agree. (They only trust themselves and are likely to take high risks for themselves.)
4	Social problems are beyond my understanding and control and largely down to fate.
	Though it is not apparent during the initial study, this question was omitted from the analysis because it was two-pronged-through usage of the word 'and' –and gave mixed messages, thus confusing the respondents.
	Effectiveness
5	A control measure is effective if it could stop risk exposure.
	H – Agree. (Binding prescriptions.)
	I - Strongly disagree. (Relatively free from control by others.)
	E – Disagree. (Little respect for externally imposed rules.)
	F – Agree. (Regulation is at a maximum.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

6	Control measures are never fully effective.
	H – Agree. ('Never fully' - Rules are managed by a capable institution. Strong group boundaries and binding prescriptions.)
	I – Agree. (Relatively free from control by others.)
	E – Agree. (World is unforgiving place and the least jolt will trigger its complete collapse.)
	F – Disagree. (Regulation at a maximum.)
7	Effectiveness of control measures reduces over time *(Adams 1995).*
	H - Strongly agree. ('Effectiveness ... reduces over time.' (Rules are managed by a capable institution. Binding prescriptions, everyone knowing his/her place.)
	I – Agree. (Little respect for externally imposed rules other than those imposed by nature.)
	E – Agree. (Non-interventionist.)
	F – Disagree. (Regulation at a maximum.)
8	Constant reviews are needed to maintain effectiveness *(Adams 1995).*
	H - Strongly agree. (Binding prescriptions.)
	I – Disagree. (Nature is benign. One is relatively free from control by others.)
	E - Disagree. (Constant reviews are arrived at democratically.)
	F – Agree. (Basically Hierarchist.)
	Control
9	Control should be imposed on every processing activity.
	H - Strongly agree. (Binding prescriptions.)
	I - Strongly disagree. (Relatively free from control by others.)
	E –Agree. (Strong group loyalties but little respect for externally imposed rules.)
	F – Agree. (Resigned to their fate and see no point in attempting to change it.)
10	Proper control means strictly adhering to written procedures.
	H - Strongly agree. (Binding prescriptions.)
	I - Strongly disagree. (Relatively free from control by others.)
	E – Disagree. (Group loyalties. Inside the group they avoided social differentiation.)
	F – Agree. (Resigned to fate and see no point in attempting to change it.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality. (H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

11	Control could be breached by collusion.
	H - Strongly disagree. (Binding prescriptions.)
	I - Strongly agree. (Encourages trial and error.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Being alone, they have little or no influence, no close friends and no one has a reason to consult them. Their support is not requested as it is hardly worth having.)
12	Segregation of duties is an important part of control.
	H - Strongly agree. (Everybody knows his/her place.)
	I - Strongly disagree. (Relatively free from control by others.)
	E – Disagree. (Leaders rule by force of personality and persuasion.)
	F – Agree. (Everyone must be an isolate, not by forests and swamps or other national barriers to communication but separated by the rules and regulations that control social relations.)
	Risk exposures
13	Exposure to risks always results in losses to the organisation *(Adams 1995)*.
	H – Disagree. (Not 'always'. Nature is forgiving of most events but is vulnerable to an occasional knocking of the bell over the rim.)
	I – Disagree. (Individualist.)
	E - Strongly agree. (Strong group loyalties.)
	F – Agree. (The isolates perceives injustice, accepts privation, but there is nothing to be done about it.)
14	Regular meetings are held to discuss the different forms of risks.
	H - Strongly agree. (Strong group boundaries & binding prescriptions.)
	I – Disagree. (Nature is benign-encourages bold experimentation in the face of uncertainty.)
	E – Agree. (Strong group loyalties - nature ephemeral.)
	F – Disagree. (Do not identify with the hierarchy to which they belong. They oppose any risk that they feel is imposed on them.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

15	Every level in the organisation should be concerned about risk exposures.
	H - Strongly agree. (Research is needed to identify the limits of nature's tolerance, and regulation is required to ensure that the limits are not exceeded.)
	I - Strongly disagree. (Relatively free from control by others.)
	E – Agree. (The world is a terrifyingly unforgiving place and the least jolt may trigger its complete collapse.)
	F – Disagree. (They only trust themselves, are often confused about risk issues, and are likely to take high risks for themselves, but oppose any risk that they they feel is imposed on them. They just cope with erratic events.)
16	Risk exposure could never be fully controlled *(Adams 1995).*
	H – Disagree. (Binding prescriptions - the managing institution must regulate against unusual occurrences, research needed to identify the limits of nature's tolerance, and regulation is required to ensure that the limits are not exceeded.)
	I – Agree. (Risk offer opportunities and should be accepted in exchange for benefits.)
	E – Disagree. ('Fully' – Nature ephemeral.)
	F – Agree. (They just cope with erratic events – the future is too uncertain for a person to make serious plans.)
	Attitude towards risks
17	I do not trust expert assessments when taking risks.
	H - Strongly disagree. (Social relationships are hierarchical with everyone knowing his/her place.)
	I - Strongly agree. (Encourages bold experimentation in the face of uncertainty, self-made, trial & error way of life.)
	E – Disagree. (I do not take risks – nature ephemeral. Risks should be avoided unless they are unavoidable to protect the public good.)
	F – Agree. (Resigned to their fate & see no point in attempting to change it.)
18	I will take advantage of whatever resources I come across.
	H – Agree. (Research is needed to identify the limits of nature's tolerance.)
	I - Strongly agree. (Encourages bold experimentation in the face of uncertainty.)
	E - Strongly disagree. (The managing institution must treat the ecosystem with care.)
	F – Agree. (They are likely to take high risks for themselves but oppose any risk that they feel is imposed on them.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

19	I am willing to undertake high risk activities as long they are managed by experts.
	H - Strongly agree (Research is needed to identify the limits of nature's tolerance.)
	I – Disagree. (I am a risk taker – I take risks even if they are not managed by experts. The individualist encourages and justifies trial and error.)
	E – Disagree. (Small is beautiful – I am risk averse.)
	F – Disagree. ('Managed by experts.' They are likely to take high risks for themselves but oppose any risk that they feel is imposed on them - they just cope.)
20	I am always a risk taker *(Adams).*
	H – Agree. (Research is needed to identify the limits of nature's tolerance, and regulation is required to ensure that the limits are not exceeded.)
	I - Strongly agree. (Encourages and justifies trial and error, encourages bold experimentation in the face of uncertainty.)
	E – Disagree. (Encourages timorous forbearance.)
	F – Disagree. ('Always' - they just cope.)
	Organisational teamwork
21	Teamwork creates more work for hardworking employees.
	H – Disagree. (Everyone knowing his/her place.)
	I – Agree. (Self-made individualist.)
	E – Disagree. (Strong group loyalties for the good of the community.)
	F – Agree. (They are against the idea of teams. They do not belong to any groups.)
22	There is no problem in my work that cannot be solved by the team.
	H – Agree. (Everyone knowing his/her place.)
	I – Disagree. (Self-made.)
	E - Strongly agree. (Strong group loyalties.)
	F – Disagree. (They are against the idea of teams. They do not belong to any groups.)
23	There is always the odd occasion in my work team where I could see room for improvement.
	H – Disagree. (Everyone knows his/her place.)
	I – Agree. (Self-made, individualised, encourages trial and error.)
	E - Disagree (Strong group loyalties.)
	F – Disagree (Resigned to fate.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

24	My team have frequent meetings to discuss problems the team faces during work.
	H – Disagree. (Everyone knows his/her place.)
	I – Disagree. (Individualised, self-made.)
	E – Strongly agree. (Strong group loyalties.)
	F – Disagree. (Cooperating with others rarely works.)
	Peer influence
25	My peers in the team are very ethical in doing their work.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Disagree. ('Self-made' individual.)
	E - Strongly agree. (Strong group loyalties.)
	F – Disagree. (I have no team. There is no use in doing things for people. Cooperating with others rarely works.)
26	Peers can jeopardise work performance.
	H – Disagree. (Everyone knows his/her place.)
	I - Strongly agree. (Self-made.)
	E - Strongly agree. (Strong group loyalties.)
	F – Agree. (I have no group. Cooperating with others rarely works.)
27	Peer interaction reduces the possibility of mistakes.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Disagree. (I am an intelligent, 'self-made' individual.)
	E - Strongly agree. (Strong group loyalties.)
	F – Disagree. (I have no group. Cooperating with others rarely works.)
28	Peer can induce fraud.
	H – Disagree. (Everyone knows his/her place.)
	I - Strongly agree. (Self-made.)
	E - Strongly disagree. (Strong group loyalties.)
	F – Agree. (There is no use in doing things for people.)
	Work supervision
29	Segregation of duties is a substantial part of this organisation.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Disagree. ('Self-made' individual.)
	E - Strongly agree. (Strong group loyalties.)
	F – Disagree. ('Segregation of duties' – Cooperation with others rarely works.

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

30	I can authorise dealings with organisational assets without superior approval.
	H - Strongly disagree. (Everyone knows his/her place.)
	I – Agree. ('Self-made' individual.)
	E – Disagree. (Strong group loyalties.)
	F – Agree. (Likely to take high risks for themselves but oppose any risk that they feel is imposed on them.)
31	My immediate superior always monitors my work.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Disagree. (Self-made.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Outcasts, untouchables, there is no use in doing things for people.)
32	I can talk in confidence to my supervisor about my work.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Agree. (I am confident.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Untouchables.)
	Fraud
33	I have all the necessary tools to detect customer fraud.
	H – Agree. (Research is needed to identify the limits of nature's tolerance, and regulation is required to ensure that the units are not exceeded.)
	I – Agree. (Self-made, encourages bold experimentation in the face of uncertainty.)
	E – Disagree. (Strong group loyalties.)
	F – Disagree. (Risks are out of our control.)
34	This organisation regularly conducts meeting on control of fraud opportunities against it.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Disagree. (Self-made.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Cooperating with others rarely works.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

35	I know of cases where someone has committed fraud in this organization (from the 'individual in the organisation's' point of view)
	H – Disagree. (Everyone knows his/her place.)
	I – Agree. (Self-made individualist.)
	E – Strongly disagree. (Strong group loyalties.)
	F – Agree. (Not bound by group loyalties.)
36	The organizational controls against fraud are very good.
	H – Strongly agree. (Binding prescriptions.)
	I – Disagree. (Relatively free from control by others.)
	E – Agree. (Strong group loyalties.)
	F – Agree. (Regulation is at a maximum.)
	Training
37	Risk awareness trainings are conducted regularly.
	H – Strongly agree. (Research is needed to identify the limits of nature's tolerance, and regulation required to ensure that the limits are not exceeded.)
	I – Disagree. (Trial and error way of life, encourages and justifies trial and error.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Resigned to their fate and see no point in attempting to change it.)
38	Employee training is crucial to job quality improvement.
	H – Strongly agree. (Binding prescriptions, everyone knowing his/her place.)
	I – Disagree. (Self-made, enterprising.)
	E – Agree. (Strong group loyalties. For the good of the group.)
	F – Disagree. (Belong to no groups responsible for the decisions that rule their lives.)
39	Risk is one of the main agenda in training (from the 'individual in the organisation's' point of view)
	H – Agree. (Binding prescriptions.)
	I – Disagree. (Encourages bold experimentation in the face of uncertainty. Risk taker.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Resigned to fate.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality. (H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

40	This organisation prioritizes employee training for job quality improvement.
	H - Strongly agree. (Interventionist.)
	I – Disagree. (Laissez-faire attitude - "this organisation".)
	E – Agree. (Precautionary principle.)
	F – Disagree. (Belong to no groups responsible for the decisions that rule their lives.)
	Organisational property
41	Organisational property should be properly accounted for.
	H – Agree. (Binding prescriptions.)
	I – Disagree. (Self-made individualist.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Resigned to fate.)
42	Peers sometimes use organisational property for personal needs.
	H – Disagree. (Everyone knowing his/her place.)
	I - Strongly agree. (Self-made, individualist.)
	E – Disagree. (Strong group loyalties.)
	F – Disagree. (No peers.)
43	Control over organisational property can still be breached.
	H – Agree. (Research is needed to identify the limits of nature's tolerance, the managing institution must regulate against unusual occurrences.)
	I - Strongly agree. (Encourages bold experimentation in the face of uncertainty.)
	E – Agree. (Risk averse.)
	F – Disagree. (Do not belong to any group.)
44	Misuse of organisational property by employees is difficult to trace.
	H – Disagree. (Everyone knows his/her place, binding prescriptions.)
	I – Agree. (Encourages bold experimentation in the face of uncertainty.)
	E - Strongly agree. (Strong group loyalties.)
	F – Agree. (Risks are out of our control.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality. (H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

	Computer security
45	No other person can access my computer other than IT Services.
	H - Strongly agree. (Everyone knows his/her place.)
	I – Disagree. (Encourages bold experimentation in the face of uncertainty.)
	E – Agree. (Strong group loyalties.)
	F – Agree. (They principally believe in hierarchy, but they do not identify with the hierarchy to which they belong.)
46	Security updates are done by the IT Services only.
	H - Strongly agree (Everyone knows his/her place)
	I - Disagree (Encourages bold experimentation in the face of uncertainty)
	E – Agree (Strong group loyalties)
	F – Agree. (They principally believe in hierarchy, but they do not identify with the hierarchy to which they belong.)
47	Physical security in this organisation could be improved.
	H – Disagree. (Everyone knows his/her place, binding prescriptions.)
	I – Agree. (Encourages bold experimentation in the face of uncertainty.)
	E – Agree. (Strong group loyalties for the good of the community.)
	F – Disagree. (Risks are out of our control.)
48	Tests are carried out at least once a month to assess data security.
	H - Strongly agree. (Everyone knows his/her place, binding prescriptions.)
	I – Agree. (Encourages bold experimentation in the face of uncertainty.)
	E – Agree. (Strong group loyalties.)
	F – Disagree. (Risks are out of our control.)
	Physical security
49	Everyone uses an identification tag at all times in my department.
	H - Strongly agree. (Everyone knows his/her place, binding prescriptions.)
	I – Agree. (Strive to exert control over their environment and the people in it.)
	E – Agree. (Strong group loyalty.)
	F – Disagree. (They do not belong to any group responsible for the decisions that rule their lives.)
50	Access is strictly only for employees and identified visitors.
	H - Strongly agree. (Everyone knows his/her place, binding prescriptions.)
	I – Disagree. (Encourages and justifies trial and error.)
	E – Agree. (Strong group loyalties.)
	F – Agree. (Regulation is at a maximum.)

Appendix A9: Table showing interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

51	Security measures are taken very seriously.
	H - Strongly agree. (Everyone knows his/her place, binding prescriptions.)
	I - Strongly disagree. (Encourages & justifies trial & error.)
	E – Agree. (Strong group loyalties.)
	F – Agree. (Regulation is at a maximum.)
52	Security control has been regularly violated.
	H - Strongly disagree. (Strong group boundaries, binding prescriptions.)
	I – Agree. (Encourages & justifies trial & error.)
	E – Disagree. (Strong group loyalties.)
	F – Agree. (Risks are out of our control.)
	Employment
53	The employment benefits from this organisation really help me in life.
	H - Strongly agree. (Social relationships are hierarchical with everyone knowing his/her place.)
	I – Disagree. (Self-made individualist, enterprising.)
	E – Agree. (Strong group loyalties.)
	F – Agree. (Outcomes, good or bad, are simply to be enjoyed or endured, but never achieved.)
54	I have a copy of my job specifications.
	H - Strongly agree. (Binding prescriptions.)
	I – Disagree. (Relatively free from control by others.)
	E – Agree. (Strong group loyalties.)
	F – Agree. (Regulation is at a maximum.)
55	Nothing I do could change the way things are conducted in this organisation.
	H - Strongly disagree. (Strong group boundaries and binding prescriptions.)
	I - Strongly disagree. (Encourages bold experimentation in the face of uncertainty.)
	E – Disagree. (Strong group loyalty for the good of the community.)
	F - Strongly agree. (Resigned to their fate & see no point in attempting to change it.)

Table A9: Interpretation Protocol: The full version of Table 11: Analysis of questionnaire questions from the respondent's point of view (continued).

Results if the questionnaires are given to persons from the four myths of rationality.
(H= Hierarchist I= Individualist E= Egalitarian F= Fatalist)

56	I could be at a higher living standard if employed in another organisation.
	H - Strongly disagree. (Strong group boundaries, everyone knowing his/her place.)
	I – Agree. (Encourages & justifies trial & error.)
	E – Disagree. (Strong group loyalties.)
	F – Disagree. (It does not matter who you vote for.)
	Communication channel
57	I fear what I report through the risk communication channel will jeopardise my position.
	H - Strongly disagree. (Binding prescriptions, everyone knowing his/her place.)
	I – Disagree. (Encourages bold experimentation in the face of uncertainty.)
	E – Disagree. (Strong group loyalties.)
	F – Agree. (Minimal control over their lives.)
58	There is no risk communication channel in my organisation.
	H - Strongly disagree. (Binding prescriptions, everyone knowing his/her place.)
	I – Agree. (Trial and error way of life.)
	E – Disagree. (Strong group loyalties.)
	F – Disagree. (Regulation is at a maximum.)
59	There is a direct line through which I could report any doubt of risk in the department.
	H - Strongly agree. (Binding prescriptions.)
	I – Disagree. (Trial and error way of life.)
	E – Disagree. (Everyone is equal – share with all.)
	F – Agree. (Regulation is at a maximum.)
60	I would surely use the risk communication channel in my organisation.
	H - Strongly agree. (Binding prescriptions.)
	I – Disagree. (Trial and error way of life.)
	E – Agree. (Strong group loyalty.)
	F – Disagree. (Do not belong to any group responsible for the decisions that rule their lives.)

Appendix A10: Table showing the full questionnaire including a full justification of the questions posed (Set 1)

Set 1 consists of fifteen sections, each with a different theme. Respondents are asked whether they strongly agree, agree, disagree or strongly disagree to the statements. The responses are analysed as per the interpretation protocol given in Appendix Table A9 and the risk framework as per Appendix Table A12.

Section 1: Beliefs
Statements:
1. Problems in society come from people not following rules and procedures.
2. It is important to manage resources effectively.
3. Personal failures can be attributed to individual incompetence.
4. Social problems are beyond my understanding and control and largely down to fate. *Though it is not apparent during the initial study, this question was omitted from the analysis because it was two-pronged-through usage of the word 'and' –and gave mixed messages, thus confusing the respondents.*
Justification to Section 1: Statements in this section identify the respondent's beliefs, in order to identify which quadrant of the risk rationality they belong to; statements 1 and 2 show belief in system and order whilst statement 3 upholds the individual rationality.
Section 2: Effectiveness
Statements:
5. A control measure is effective if it could stop risk exposure.
6. Control measures are never fully effective.
7. Effectiveness of control measures reduces over time.
8. Constant reviews are needed to maintain effectiveness.
Justification to Section 2: Statements in this section associate with the hierarchist rationality and therefore aims to deduce who are the hierarchist respondents, i.e. those having all agree or strongly agree answers. However, there is an expected mix of agreement and disagreement in the answers to respondents from other rationalities.
Section 3: Control
Statements:
9. Control should be imposed on every processing activity.
10. Proper control means strictly adhering to written procedures.
11. Control could be breached by collusion.
12. Segregation of duties is an important part of control.
Justification: This section shows perceptions on control. The statements could show disagreement between hierarchists and individualists. Hierarchists would most probably strongly agree to statements 9, 10 and 12 whilst the individualist would strongly disagree to the same statements.

Appendix A10: Table showing the full questionnaire including a full justification of the questions posed (Set 1) (continued)

Section 4: Risk exposures This section explores the respondent's opinion on risk perception.
Statements:
13. Exposure to risks always results in losses to the organization.
14. Regular meetings are held to discuss the different forms of risks.
15. Every level in the organisation should be concerned about risk exposures.
16. Risk exposure could never be fully controlled.
Justification: Statements in this section are asked to establish respondent's understanding of risks and risk exposure. Statements 14, 15 and 16 could distinguish hierarchists and egalitarians from the individualists and fatalists.
Section 5: Attitude towards risks
Statements:
17. I do not trust expert assessments when taking risks.
18. I will take advantage of whatever resources I come across.
19. I am willing to undertake high risk activities as long they are managed by experts.
20. I am always a risk taker.
Justification: The aim is to identify the respondent's attitude towards risks. Strong agreement to statements 17, 18 and 20 could identify a respondent as an individualist, whilst the egalitarian would disagree to statements 17 and 19, 20 and strongly disagree to statement 18.
Section 6: Organisational teamwork
Statements:
21. Teamwork creates more work for hardworking employees.
22. There is no problem in my work that cannot be solved by the team.
23. There is always the odd occasion in my work team where I could see room for improvement.
24. My team has frequent meetings to discuss problems the team faces during work.
Justification: This section identifies the position of the individual within the 'group' axis of the 'grid-group' framework. It is expected that egalitarians would strongly agree to statements 22 and 24.

Appendix A10: Table showing the full questionnaire including a full justification of the questions posed (Set 1) (continued)

Section 7: Peer influence
Statements:
25. My peers in the team are very ethical in doing their work.
26. Peers can jeopardise work performance.
27. Peer interaction reduces the possibility of mistakes.
28. Peer can induce fraud.
Justification: Statements in this section also identifies the position of the respondent on the 'group' axis of the 'grid-group' framework. Answering 'disagree' to statement 25 whilst at the same time answering 'agree' to statement 28 may also imply that the respondents may know of fraud amongst peers.
Section 8: Work supervision
Statements:
29. Segregation of duties is a substantial part of this organization.
30. I can authorise dealings with organisational assets without superior approval.
31. My immediate superior always monitors my work.
32. I can talk in confidence to my supervisor about my work.
Justification: The questions in this section discusses internal control within the organization. At the same time it tests the respondent's sense of commitment to the organization.
Section 9: Fraud
Statements:
33. I have all the necessary tools to detect customer fraud.
34. I have come across situations where there were opportunities for organisational fraud.
35. I know of cases where someone has committed fraud in the organization.
36. The organisational controls against fraud are very good.
Justification: The statements in this section tests on internal control. Disagreement to questions 33 and 36 coupled with agreement to statements 34 and 35 should be investigated.
Section 10: Training
Statements:
37. Risk awareness trainings are conducted regularly.
38. Employee training is crucial to job improvement.
39. Risk is one of the main agenda in training.
40. This organisation prioritises employee training for job improvement.
Justification: This section tests on the sense of group belonging of the respondent. Thus hierarchists and egalitarians would strongly agree or agree to all four statements whilst the individualists and fatalists would disagree to the same.

Appendix A10: Table showing the full questionnaire including a full justification of the questions posed (Set 1) (continued)

Section 11: Organisational property
Statements:
41. Organisational property should be properly accounted for.
42. Peers sometimes use organisational property for personal needs.
43. Control over organisational property can still be breached.
44. Misuse of organisational property by employees is difficult to trace.
Justification: The statements in this section questions the individual's sense of belonging to the organization. Statement 42, 43 and 44 also questions the respondent's experience on internal control within the organisation.
Section 12: Computer security
Statements:
45. No other person can access my computer other than IT Services.
46. Security updates are done by the IT Services only.
47. Physical security in this department could be improved
48. Tests are carried out at least once a month to assess data security.
Justification: This section is presented to show the respondent's attitude and understanding of computer security risks. Hierarchists would most likely strongly agree to statements 45, 46 and 48.
Section 13: Physical security
Statements:
49. Everyone uses an identification tag at all times in my department.
50. Access is strictly only for employees and identified visitors.
51. Security measures are taken very seriously.
52. Security control has been regularly violated.
Justification: This section also tests on the internal control measures within the organization as well as the attitudes towards risk of the respondents. Hierarchists would strongly agree to statements 49, 50 and 51.
Section 14: Employment
Statements:
53. The employment benefits from this organisation really help me in life.
54. I have a copy of my job specifications.
55. Nothing I do could change the way things are conducted in this organization.
56. I could be at a higher living standard if employed in another organization.
Justification: This section tests the attitude of the respondents on employment within the organization. Answering strongly agree or agree to both statements 55 and 56 should be cause for concern.

Appendix A10: Table showing the full questionnaire including a full justification of the questions posed (Set 1) (continued)

Section 15: Communication channel
Statements:
57. I fear what I report through the risk channel will jeopardise my position.
58. There is no risk channel in my organization.
59. There is a direct line through which I could report any doubt of risk in the department.
60. I would surely use the risk communication channel in my organization.
Justification: This section identifies the visibility of communication channel within the organization. It also tests the respondent's sense of belonging to the organization.

Appendix A11: Table showing the questionnaire recipients and response rate: Set 1 – (Within and outwith the organisation's premises)

Case organisation	Questionnaire recipients	Response rate
Pilgrims Fund	Middle level managers and employees by organisation's discretion*	Within: 9 out of 14 (64%) Outwith: 1 out of 5 (20%) Total: 10 out of 19 (53%)
Armed Forces Fund	Middle level managers and employees by organisation's discretion*	Within: 28 out of 28 (100%) Outwith: 1 out of 5 (20%) Total: 29 out of 33 (88%)

*Questionnaires were distributed within the organisations' premises through a middle level manager in each organisation who was earlier interviewed. Due to organisational protocol and the secrecy oath employees have to sign on employment, it is officially not possible to get the employees' opinion without first approaching the management. The same questionnaire was also distributed at a location outwith the premises of the organisations. The response was poor due to miscommunication where employees from statutory bodies other than the case organisations responded to the questionnaires. Some questionnaires distributed were not returned.

Appendix A12: Table showing the questionnaire recipients and response rate: Set 2

Case organisation	Questionnaire recipients	Response
Pilgrims Fund	1. Email mailing list where respondents are asked to send the questionnaire to other persons. 2. Persons approached and questioned if they have savings in the Pilgrims Fund and waited upon.	29 questionnaires 13 questionnaires

Appendix A13: Table showing the risk framework used for analysing the different risk rationalities.

1. Cultural theory: The individualist rationality (Douglas 2005; Adams 1995; Renn 1992 and Schwarz & Thompson 1990.) The individualist rationality states that individualists are enterprising "self-made" people who are relatively free from control by others, and who strive to exert control over their environment and the people in it. Their success is often measured by their wealth and the number of followers they can command. The self-made Victorian mill owner would make a good representative of this category. They perceive risk-taking as an opportunity to succeed in a competitive market and to pursue their personal goals (Rayner 1987). They are less concerned about equity issues and would like the government to refrain from extensive regulation or risk management efforts. This group contrasts most with organisations or groups belonging to the egalitarian rationality Individualism is a weak group, weak regulation competitive culture where the well-being of the community does not come above the well-being of the individual. The prominent virtues are individual courage, intelligence, perseverance, and success. Power and wealth are the rewards. It is a tough environment, competition is merciless and the weakest will go to the wall. In terms of the substantive rationality, 'the bottom line' is what they care for, not the relational niceties of the people who happen to have come together to achieve that result. Market cultures stress the autonomy of individuals and their resulting freedom to bid and bargain with each other. Risks offer opportunities and should be accepted in exchange for benefits.

Appendix A13: Table showing the risk framework used for analysing the different risk rationalities (continued).

2. Cultural theory: The hierarchists rationality (Douglas 2005; Adams 1995; Renn 1992 and Schwarz & Thompson 1990.) Hierarchists are also known as bureaucrats. They rely on rules and procedures to cope with uncertainty. As long as risks are managed by a capable institution and coping strategies have been provided for all eventualities, there is no need to worry about risks. They believe in the effectiveness of organizational skills and practices and regard a problem as solved when a procedure to deal with its institutional management is in place. They inhabit a world with strong group boundaries and binding prescriptions. Social relationships in this world are hierarchical, with everyone knowing his or her place. Members of caste-bound Hindu society, soldiers of all ranks, and civil servants, are exemplars of this category. This rationality presumes an agreement about objectives, what the economists calls and "objective function". They inhabit a singular hierarchy and any hierarchist's attempt to formulate a rationale for action, can only work if there are common values and agreement about the hierarchy's objectives. The method encounters insurmountable problems when attempts are made to use it to resolve disputes involving more than one hierarchy and/or other cultural biases." Otherwise known as positional, the hierarchist culture is a strong group, strong regulation culture. All roles are predetermined, all behaviour subject to 'positional' rules indicated by heredity, or gender, or age and their combinations. Little groups may be incorporated into larger groups similarly organised. There may be several levels of groups in a large hierarchy. Positional culture favours tradition and continuity, frown on competition except with outsiders, must encourage respect, loyalty, obedience and the well-being of the community. It is a culture that subordinates the good of the individual to that of the whole and is extremely efficient for coordination with its coherent structure of subordination and command. Decision-making roles are clearly located at the top, support is readily mustered. The procedural rationality is that there is 'A place for everything…' Hierarchies are made up of bounded social groups, each of which is in an orderly and ranked relationship with each other. Their attempts to coordinate these components, without violating status differentials, creates a procedural rationality that is more concerned with the proprieties of who does what than with trying to evaluate the outcome (if there is one). Risks are acceptable as long as institutions have the routines to control them.

Appendix A13: Table showing the risk framework used for analysing the different risk rationalities (continued).

3.Cultural theory: The egalitarian rationality (Douglas 2005; Adams 1995; Renn 1992 and Schwarz & Thompson 1990.) Egalitarians have strong group loyalties but little respect for externally imposed rules, other than those imposed by nature. Group decisions are arrived at democratically and leaders rule by force of personality and persuasion. Members of religious sects, communards, and environmental pressure groups all belong to this category. Egalitarians emphasize cooperation and equality rather than competition and freedom. They focus on long term effects of human activities and are more likely to abandon an activity (even if they perceive it as beneficial to them) than to take chances. They are particularly concerned about equity. Egalitarians are also known as enclaves. This culture has strong groups, and weak structure. They are social groups with strongly barred frontiers and very feeble internal regulation of any kind. They have rules that regulated their contact with the outside, but inside the group they avoided social differentiation. Being a dissenting minority, this group will have difficulties in preserving itself, threatened without by the society that it regarded as corrupted by wealth and power, and threatened from within by disaffected members, its political life would be very insecure. The leaders would constantly fear defection of members. Their best remedy was to paint the non-members as thoroughly evil, proved whenever their relations with the outside turned violent. One of the disadvantages of a group conforming to this condition would be the difficulty of establishing authority and the consequent weakness of leadership. Their critical rationality is to 'Tread lightly on the earth.' They have a communal rationality which stresses the importance of fraternal and sororal cooperation, and therefore strives for social relationships that are voluntaristic and egalitarian. But, since this desired state of affairs is always threatened by the encroachment of hierarchy (which brings status differences) or by excessive individualism (which all too easily introduces inequalities of wealth, power and knowledge), collective identity has all the time to be sustained by a shared and strident criticism of what goes on outside the group. Historically, this rationality has been the driving force of socialism (but as that movement has grown, it has been increasingly diluted by hierarchy and political entrepreneurialism) and today it is alive and well as the preferred organisational form of the Greens (and of many single-issue public interest groups in the United States). Risks should be avoided unless they are inevitable to protect the public good.

Appendix A13: Table showing the risk framework used for analysing the different risk rationalities (continued).

4. Cultural theory: The fatalist rationality (Douglas 2005; Adams 1995; Renn 1992 and Schwarz & Thompson 1990.) Fatalists, also known as isolates, principally believe in hierarchy, but they do not identify with the hierarchy to which they belong. They only trust themselves, are often confused about risk issues, and are likely to take high risks for themselves, but oppose any risk that they feel is imposed on them. At the same time, they see life as a lottery and are often unable to link harm to a concrete cause (Thompson 1979). They have minimal control over their own lives. They belong to no groups responsible for the decisions that rule their lives. They are non-unionized employees, outcasts, untouchables. They are resigned to their fate and they see no point in attempting to change it. In the *fatalist* culture, group is at a minimum and regulation at a maximum. Everyone must be an isolate, not by forests and swamps or other national barriers to communication but separated by the rules and regulations that control social relations. Urban dwellers are likely to have this experience. Conventions prevent them from joining groups, perhaps because they lack qualifications, wrong colour, wrong accent, not enough money, or the wrong schooling. At the extreme, the isolates, perhaps as deviants, or refugees, or immigrants, have not been able to meet the conditions for belonging to viable groups in the positional society. Or for similar reasons have lost patronage and been pushed out of the culture of competitive individualisation. Isolates share a common philosophy. Being alone, they have little or no influence, no close friends, no one has a reason to consult them, their support is not requested as it is hardly worth having. Conversation is limited. Ideas get simplified. International conspiracy is one of the favourite easy explanations for the things that are wrong with the world. The isolates perceives injustice, accepts privation, but there is nothing to be done about it. The fatalist rationality states that 'It doesn't matter who you vote for…' Outcomes, good or bad, are simply to be enjoyed or endured, but never achieved. Life is a lottery; risks are out of our control; safety is a matter of luck.