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2022**



***e-PROCEEDINGS***

**THE 12th  
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ON FINANCIAL CRIMINOLOGY  
(ICFC 2022)**

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**25 - 27<sup>th</sup> AUGUST 2022**  
**WYNG Gardens, Trinity Hall,**  
**University of Cambridge**  
**United Kingdom**

**HYBRID CONFERENCE**

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**Organised by:**

Accounting Research Institute, Universiti Teknologi MARA, Malaysia

**In collaboration with:**

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## TABLE OF CONTENTS

<b>A Synthesis and Systematic Review of News and MACC Publications on Anti-Corruption Education in Malaysia</b>	1-3
<i>Nor Farizal Mohammed, Norziana Lokman, Norazida Mohamed, &amp; Norsuhaily Abu Bakar</i>	
<b>Sustainability Development Goals, Strategies and Challenges Faced by Social Enterprises in Malaysia</b>	4-10
<i>Norziana Lokman &amp; Farah Aida Ahmad Nadzri</i>	
<b>Impact of Internal Audit Effectiveness on Employee Performance: The Case of Bumiputera Academic Institution</b>	11-12
<i>Siti Aisyah Barizah Kamsis &amp; Dewi-Izzwi Abdul Manan</i>	
<b>A Preliminary Analysis of Corporate Governance Adoption among Listed Malaysian SMEs</b>	13-15
<i>Syahrina 'Adliana Abdul Halim, Norziana Lokman &amp; Sarina Othman</i>	
<b>Evaluating the Factors Influencing Share Price Volatility of General Insurance Companies Listed in the Dhaka Stock Exchange</b>	16-24
<i>Mohammad Zahed Hossain &amp; Farid A. Sobhani</i>	
<b>The Influence of Internal Governance on Social Performance of Non-Profit Organizations</b>	25-29
<i>Sakinah Mohamed Tajularifin, Razana Juhaida Johari &amp; Zuraidah Mohd Sanusi</i>	
<b>Determinants of Acceptance of the Artificial Intelligence (AI) Technology: Empirical Evidence from the Malaysian Shared Service Industry</b>	30-34
<i>Intan Salwani Mohamed, Nur Azira Norzelan &amp; Maslinawati Mohamed</i>	
<b>Good University Governance and the Whistleblowing System: The Role of the Internal Audit</b>	35-40
<i>Halim Dedy Perdana, Nafsiah Mohamed, Corina Joseph &amp; Intiyas Utami</i>	
<b>Exploring the Correlation Between Financial Risk, Operational Risk, Strategic Risk, and the Performance of Small and Medium-Sized Enterprises (SMEs) in the Klang Valley, Malaysia</b>	41-43
<i>Azril Mohd Radzi, Azahari Jamaludin, Ahmad Fauzi Ahmad Zaini, Dewi-Izzwi Abdul Manan &amp; Mohd Hanafia Huridi</i>	
<b>Digital Transformation and Digital Maturity Level for Halal Supply Chain Governance at JAKIM</b>	44-48
<i>Siti Navillah Zulkifli</i>	
<b>The Challenges Faced in Money Mule Investigation by a Malaysian Enforcement Agency</b>	49-52
<i>Mohd Irwan Abdul Rani, Salwa Zolkafli, &amp; Sharifah Nazatul Faiza Syed Mustapha Nazri</i>	

**Exploring Malaysian SMEs Challenges in Mitigating the Cybersecurity Threat**

53-56

*Fazlida Mohd Razali, Salwa Zolkafli, Zulaikha Amirah Johari, Afzal Izzaz Zaharil, Jamaliah Said, Muhamad Khairulnizam Zaini & Siti Masitah Ashar*

# A Synthesis and Systematic Review of News and MACC Publications on Anti-Corruption Education in Malaysia

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## Abstract

*The misuse of authority for one's own benefit is known as corruption, and the repercussions are harmful to the nation. Mega-scandals like Tabung Haji, 1MDB, FELDA, MARA, SRC International, and the Sabah Water Department strengthen Malaysia's reputation as a kleptocracy (National Anti-Corruption Plan, 2019- 2023). Asia's low-corruption nations which include Singapore, Hong Kong and Japan. are free of corruption, as evidenced by their 4th, 12th and 18th rankings on the corruption perception index (CPI) for 2021. (Transparency International, 2022). Malaysia, on the other hand, was rated as being severely corrupt, coming in at number 62 on the CPI, a downtrend since 2018 (Transparency International, 2022). The Malaysian government has launched a number of initiatives, laws, and regulations in the battle against corruption (Muhammad and Gani, 2020). However, preventing corruption requires more than just identifying criminal flaws and prosecuting offenders. A prevention strategy is essential because corruption in this nation has become a social illness that has spread to the workplace and the political system. Any campaign against corruption will not be successful in the long run unless it covers all facets of society. Prior research has focused on the use of laws and regulations to prosecute corrupt individuals, but has overlooked the ability of education to change the culture of corruption. Given the lack of research on this issue, it is puzzling as to what extent Malaysia has delivered anti-corruption education in the public education system. As a result, the purpose of this study was to investigate the state of anti-corruption education in Malaysia in the public education system by performing a systematic review of anti-corruption news in Malaysia.*

**Keywords:** News and MACC publications; Anti-corruption; Education

## Introduction

The misuse of authority for one's own benefit is known as corruption, and the repercussions are harmful to the nation. Mega-scandals like Tabung Haji, 1MDB, FELDA, MARA, SRC International, and the Sabah Water Department strengthen Malaysia's reputation as a kleptocracy (National Anti-Corruption Plan, 2019- 2023). Asia's low-corruption nations which include Singapore, Hong Kong and Japan are free of corruption, as evidenced by their 4<sup>th</sup>, 12<sup>th</sup> and 18<sup>th</sup> rankings on the corruption perception index (CPI) for 2021. (Transparency International, 2022). Malaysia, on the other hand, was rated as being severely corrupt, coming in at number 62 on the CPI, a downtrend since 2018 (Transparency International, 2022). The Malaysian government has launched a number of initiatives, laws, and regulations in the battle against corruption (Muhammad and Gani, 2020). However, preventing corruption requires more than just identifying criminal flaws and prosecuting offenders. A prevention strategy is essential because corruption in this nation has become a social illness that has spread to the workplace and the political system. Any campaign against corruption will not be successful in the long run unless it covers all facets of society.

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## Literature Review

In general, the Malaysian culture tolerates corruption (Price Waterhouse Coopers, 2018). Therefore, the issue is how to change this culture. Recent studies have shown that education is an effective means of spreading anti-corruption awareness across the nation (Hauser, 2019). Japan is renowned for its self-control, responsibility, and dedication to its integrity-based culture (Suyitno et al., 2019). According to a preliminary analysis, moral education values have been incorporated into Japan's educational system from the very beginning of the educational process (Suyitno et al., 2019; Assegas, 2017). Anti-corruption education is a priority in the education system in Hong Kong (Montessori, 2012). Both strategies have been effective in eradicating corruption in their respective countries, as seen by the low CPI index rankings. The Malaysian educational system has disregarded the ethical importance of developing moral character because it has placed too much emphasis on exams. It is worthy to investigate as to what extent Malaysia has imposed an anti-corruption education in the educational institutions in Malaysia.

None of the corruption studies conducted in Malaysia during the past ten years that were reviewed by Muhamad and Gani (2020) looked at the possibilities of anti-corruption education. When it comes to forming character, instilling anti-corruption ideals, and raising moral awareness, Amann et al. (2017) looked at the possibilities of anti-corruption education in management and business studies. The possibilities for including anti-corruption education in the national education curriculum will be looked at in the current study. Our neighbour Indonesia has started using this tactic to fight corruption in their school system, but Malaysia has said nothing about it. The studies by Assegas (2017) and Kamil et al. (2018) made an effort to contrast the anti-corruption education provided by the Indonesian system with that in Japan and Hong Kong, respectively, although Malaysia's political and policy environment is distinct from that of Indonesia. Japan was picked because it explicitly aims to enhance the character of the Japanese people through its moral education system (Bamkin, 2019). The success of Hong Kong's anti-corruption teaching programme in schools, which helped turn it from a corrupt to a clean state, was emulated by Montessori (2012), who also makes this recommendation. The specific research of the Malaysian environment and the analysis of ways to build an anti-corruption culture in other countries will add value to the existing information and will be practically significant because Malaysia has its own unique political history.

## **Methodology**

To construct the synthesis and systematic reviews on the situation of anti-corruption education in Malaysia, we conducted qualitative content analysis of 18 google news. We also provide support for the findings from the google news with the review of the Malaysian Anti-corruption Commission (MACC) publications and an interview with the staff from then anti-corruption education section, MACC. Prior studies have used this method of qualitative content analysis of news when there is a lack of prior research and journal articles on the related issue.

## **Findings**

The analysis of news revealed that, Malaysia began planning in 1998 to incorporate anti-corruption education into its educational system. But given the scant coverage and paucity of research on anti-corruption education in Malaysia, it is unclear to what extent the authorities and citizens in the country were ready to invest in the fight against corruption. As Quah (2017b) noted, a strong political will is the most important factor to make a change in the corruption environment, hence implementing this strategy calls for a strong political will from Malaysian leaders. Despite the planning, the MACC did not begin implementing this programme in schools until around the year 2020. It began with Sahabat Cilik (Petite Friends) and Wira Anti-Rasuah (Anti-corruption Heroes), and it gradually expanded to include Malay language, Civic, Moral, and Religious subjects in line with the National Transformation (2050). Nevertheless, these tactics only reached a small part of the nation's total number of children. It is uncertain whether the MACC plans had actually made it into the classrooms given the intense focus on exams in Malaysian schools. The Malaysian educational system has overlooked the socialisation of moral values by placing too much emphasis on grades in exams. The findings revealed that anti-corruption education has been introduced in the Malaysian primary, secondary, and higher education institutions. Nonetheless, the approach and implementation were limited, shallow, and incomplete.

To the researchers' knowledge, this is the first study to explore on anti-corruption education in Malaysia. Knowing the state of anticorruption education in a country can help us better understand



how the public is currently educated in Malaysia. This research adds to the body of knowledge in the fields of anti-corruption and education, as well as suggests practical anti-corruption policies.

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# Sustainability Development Goals, Strategies and Challenges Faced by Social Enterprises in Malaysia

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## Abstract

*This study aimed to reveal which sustainability mission is targeted by Social Enterprises (SEs) and how SEs balance their economic and social activities. Furthermore, this study also explored the challenges faced by the SEs in ensuring the sustainability of their supply chain. The researchers developed a questionnaire to collect data about the targeted sustainability development goals (SDGs), strategy and challenges faced by SEs during the Covid-19 Pandemic. The online questionnaire was sent to the selected SEs via social media. Information on sustainable development goals targeted by SEs were obtained and verified from their annual reports and websites. The finding indicated that SEs dedicated their effort to achieving at least one of the SDGs commissioned by the United Nations. The key challenge faced by the SEs is balancing social and economic activities. However, SEs lack funds and support thus limiting their ability to sustain themselves. This situation worsens because of the inability of SEs to harmonise their stakeholders' interests. The results have implications for policymakers as they contribute to the debate on the sustainability of SEs.*

**Keywords:** Covid-19 pandemic; Social Enterprise; Sustainable Development Goals

## Introduction

Social enterprises are non-profit organisations that seek to achieve social goals through commercial activities. Because they have both social and commercial objectives, social enterprises are confronted with high levels of complexity in their strategies and operations. Besides, SEs not only have to generate sufficient revenue to reinvest in their business operations, they also have to maintain investments in social projects in their community. Such conditions pose severe challenges which can threaten the long-term sustainability of the SEs. This research investigated the tension between allocating resources to commercial activities and social action for SEs. This research aimed to explore the challenges faced by the SEs in ensuring that their social cause and commercial activities are sustained by investigating five SEs in Malaysia that managed to thrive and grow. A questionnaire was developed to understand the sustainability mission, challenges and strategy practices by SEs in balancing their social and economic activities.

Entrepreneurs have been adversely affected by the ongoing COVID-19 Pandemic, including those in the SEs industry. Many small businesses had to close down during the implementation of the Movement Control Order (MCO). This situation caused their business to suffer financially, and as a result, some of them had to stop their commercial activities. With less revenue generated from commercial activities, SEs cannot support and sustain their primarily social objectives. Thus, this means the SEs are not able to be financially self-sufficient. Kamaludin (2021) defined *social entrepreneurial sustainability* as the process of developing sustainable solutions for social, economic or environmental problems that are not being addressed by the market. While sustainability is often a core component of SE, there is limited, critical debate on how to achieve sustainability, given the dynamic nature of SEs. Most literature has focused on: defining the concept and evolution of social enterprises (Abdul Kadir et al., 2016, Doherty et al., 2014); comparing social enterprises with other forms of organisations (Luke & Chu, 2013; Mackintosh et al., 2011); governance (Yu, 2013) and sustainability of SEs (Roy & Karna, 2015). However, there are limited studies, especially in Malaysia, concerning the sustainability of SEs (Abdul Kadir, 2015).

This study explored the targeted SDGs and challenges faced by SEs during the Covid 19 Pandemic to help new and current SEs to be prepared for the worse scenarios in the future. The strategies and approaches used by the successful SEs in delivering their social cause may also be helpful to other SEs to learn if they wish that their social benefits are sustainable and self-sufficient. Also, it can directly improve Malaysia's achievement of the UN Sustainable Development Goals. Social enterprises (SEs) refer to organisations that are formed with social causes as their primary objective, namely, eradicating poverty or protecting the environment and using a private sector business model to sustain

themselves (Abdul Kadir et al., 2015; Murphy et al., 2022). Profits are not the main objectives of SE; instead, it acts as an agent of change by identifying social issues and finding a solution to the issues. In contrast to NGOs, SEs are not mapped out to sustain themselves through donations (Mackintosh et al., 2011). SEs have a revenue source similar to private businesses through their commercial activities, from selling traditional crafts to offering discounted or free health services. SEs will use the revenue from their commercial activities to sustain their social objective. Thus, a SE can be identified by two fundamental characteristics: social objective and a commercial business model.

According to the Nobel Peace Prize laureate Muhammad Yunus, a social business is a type of business formed to address a social issue, be self-sufficient and not pay a dividend to shareholders. A social business is a useful and different approach for philanthropists to put their money (Yunus et al., 2010). Rather than making a one-time donation, they can invest in viable businesses generating endless benefits. Potential profits are reinvested into the business rather than paying dividends to shareholders, allowing the business to expand its positive social impact (Yunus et al., 2015). Therefore, a social business acts like an NGO; it has a social objective and acts as a business to generate income to cover expenses. While investors may gain returns on their investment, all other profits are reinvested into the same or other social businesses.

Companies often allocate some portion of their retained profits towards social activities, commonly known as corporate social responsibility (CSR). Even if the company is generating a social impact as part of its activities, as long as it is set up to maximise shareholders' wealth, it is a conventional business. This is the key difference between a SE and a conventional business. Indeed, a social business is still considered a 'business', not charity. The shareholders of a social business are not philanthropic donors just because they do not earn dividends for their investment; they are still entitled to recover their investment. According to Aisaiti et al. (2021), SEs can enhance their legitimacy through social activities than commercial ones. Hence, SEs must be financially self-sufficient and able to sustain themselves.

In Malaysia, there is no specific legal framework that governs SEs. SEs can be formed either as private companies, enterprises or associations. Social Enterprise Malaysia has identified five models that SEs may adopt. An organisation is a SE if it adopts one of the five SE business models. The five SE business models are (1) Design for extreme affordability, (2) cross-subsidisation, (3) buy-and-give, (4) microfinancing, and (5) inclusive business (Nik Hassan et al., 2018).

The benefits of SEs can bring to a community are twofold. First, SEs can bring social benefits to the community in a self-sustaining approach by using the revenue generated from their commercial activities. Secondly, SEs offer a solution to social issues which improve the quality of life and well-being of the community on a large scale by encouraging the participation of other players in the value chain and receiving financing from mixed sources, namely, consumers, franchisees and commercial activity sources (Adnan & Yusoff, 2018). Anton and Niveen (2016) contend that SE sustainability is based on understanding the impact of contextual, organisational and individual spheres that correspond to three strategic enablers: stakeholder orientation, relationship-oriented organisation, and entrepreneurial behaviour. These three strategic enablers have contributed value to the upkeep of an enterprise. Their study found that the sustainability of SEs in a constrained environment is a function of continuous entrepreneurial activity and the effective use of social and business models.

## **Methodology**

This study focussed on ten (10) Malaysian SEs/NGOs, which de Gruijter (2019) mentioned in his article, which Malaysians should watch if they are interested in sustainable development and social impact. They are as follows :

1. H2GO
2. Yellow House KL
3. Earth Heir
4. Payong
5. Safespace
6. Urban Hijau
7. Rohingya Project
8. Reef Check Malaysia

## 9. Elom Empowerment

## 10. The Champions

Due to the limited availability of data and the no response from some SEs, five of them were excluded. The data collection process began with a review of documents, reports and United Nations 17 Sustainability Development Goals (UNs 17 SDGs) websites. A questionnaire with open-ended and closed-ended questions was used to maximise understanding of the targeted SDG of the SEs, strategies, and challenges. The questionnaire was divided into four parts: 1) Demographic data of SEs, 2) Sustainability development goals targeted, 3) Challenges and; 4) Conflicts.

## Result and Discussion

### *Demographic profile of SEs*

The type of business structures of SEs included in this study were charitable trust organisations, a private company and an incorporated society. One of the SEs had a larger number of staff at 50 staff, compared to the other four SEs, which had less than 13 staff. Most of the data about the sustainability, challenges and conflict involving the SEs were collected from their website, Facebook, and Instagram, and only one of them had published an annual report. Table 1 below presents the demographic data of the SEs.

Table 1. Demographic Profile of SEs

No	SE background	Organisation/ business legal structure	Number of staff	Data sources-Preliminary
1	SE1 is an organisation with a long history of providing clean drinking water to remote and rural communities using the latest British technology.	A Charitable Trust	13	Website
2	SE2 is a not-for-profit grassroots community organisation dedicated to improve lives to be more sustainable for homeless people, urban poor and refugee communities in Selangor and Kuala Lumpur.	A Charitable Trust	8	Website, Facebook, Instagram
3	SE3 is a NPO management that monitors the health of coral reefs at over 200 sites every year. They are based on 3 Islands (Tioman, Mersing and Mantanani) in Malaysia working on community projects to (monitor, manage, conserve, advocate and do research) marine resources.	An incorporated society	50	Website, Facebook, Instagram & Annual Report
4	SE4 is an organisation that provides community services specifically on mental health services.	An incorporated society	3	Website & Facebook
5	SE5 is an organization which is officially registered with CCM under the name, Elom Empowerment Sdn. Bhd. (1254474-D). It is licensed to open and run schools, training centres and do social business to support social causes especially for Rohingya refugees.	A private company	2	Website, Facebook & Blogspot

### *Sustainability Mission and Sustainable Development Goals*

The Sustainability Mission and Sustainable Development Goals of the SEs are presented in Table 2. The data collected showed that in terms of economic mission, four SEs had it as part of their mission statement except for SE4. For Social mission, all five SEs included a social mission in their

organisation's vision and mission statement. However, the environmental mission seemed to be lacking in most of the SEs. The SEs focussed on one out of the 17 SDGs. Based on the analysis, SE2 focussed on four SDGs, and SE3 indicated that it focused on all the 17 SDGs. One SE (SE4) did not include SDGs in their mission statement.

Table 2. Sustainability Mission and Sustainable Development Goals (SDGs)

SE	Economic mission	Social mission	Environmental mission	Description of the organisation economic, environmental mission	Sustainable Development Goals (SDGs)
SE1	Yes – products: For examples, hand sanitiser, medical examination glove and Anti Bacteria products like can and bottle	Yes	Water treatment	Conservating/protecting the environment	SDG 6 – Clean water and sanitation
SE2 Y		Yes	No	Improving a particular community	SDG8 - Decent work and economic growth SDG11 - Sustainable cities and communities SDG12 - Responsible consumption & production SDG17 - Partnerships for the goals
SE3	Yes – Diving class & craft/souvenir	Yes	Yes – monitor & conserve reef	Conservating/protecting the environment	SDG1 - No poverty SDG2 - Zero hunger SDG4 - Quality education SDG6 - Clean water and sanitation SDG8 - Decent work and economic growth SDG10 - Reduced inequalities SDG11 - Sustainable cities and communities SDG12 - Responsible consumption and production SDG13 - Climate action SDG14 - Life below water SDG16 - Peace, justice and strong institution SDG17 - Partnership for the goals
SE4	No	Yes	No	Improving health and well-being	SDG3 – Good health and well-being

SE5	Yes – Education & Training	Yes	No	Providing a service(s) based on the organization's mission	NA
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*Challenges faced by the SE in ensuring the sustainability of their social cause*

There were various challenges faced by SEs, especially during the Covid-19 Pandemic. Two SEs (SE3 and SE4) indicated that they still used the same business model but with reduced activities to operate their economic and social activities. SE1, which had commercial activity, still ran their activities as normal after the Pandemic with little or no change in the business model, processes, products/ services and sources of income. Surprisingly SE2 had increased its social activities during the crisis. In comparison, SE5 had to change its business model and had planned to return to normal once the crisis ends. Regarding the impacts of the Pandemic, four SEs admitted that social distancing somehow impacted their ability to support the targeted groups. Compared to SE5, the organisation's activities had negatively affected its supply chain.

As to the question on the challenges faced by SEs, three out of five SEs indicated that lack of funds and support from the relevant government agencies as a key challenge to their organisation. On the other hand, the remaining two SEs said that profits from the commercial activities were insufficient to fund their social activities, especially during the crisis.

Table 3: Challenges faced by the SE/NGOs in ensuring the sustainability of their social cause

SEs	What is the situation regarding your business operations?	Is the COVID-19 affecting you in any of the following ways?	What are the challenges faced by the SE in ensuring the sustainability of their social cause?	If your business has changed as a result of COVID-19, do any of the following apply?
SE1	Running as pre-crisis, little or no change to business model (processes, products/services, income sources)	Social distancing has affected our impact/ability to support targeted group	Profit from the commercial activities is not sufficient in funding the social activities	We provide new/additional support directly targeted at those in need due to COVID-19
SE2	Same model, increased activity	Social distancing has affected our impact/ability to support targeted group	Lack of support from the government	We provide new/additional support directly targeted at those in need due to COVID-19
SE3	SE3 Same model, reduced activity	Social distancing has affected our impact/ability to support targeted group	Profit from the commercial activities is not sufficient in funding the social activities	We provide new/additional support directly targeted at those in need due to COVID-19
SE4	Same model, reduced activity	Social distancing has affected our impact/ability to support targeted group	Limited funds and lack of support from the government	Temporarily closed but continue to provide counselling services (mental health) using social media to those affected by CV19.
SE5	Changes to business model - plan to return to normal ASAP	Our supply chain has been negatively affected	Limited funds	Temporarily closed

### *Conflicts in Balancing Economic, Social and Environmental Missions*

All the five SEs stated that the community was the number one stakeholder, followed by employees and the Government. SE1 even included the management as one of its key stakeholders. SE1 also mentioned conflicting expectations of the various stakeholders as its main challenge in balancing the three key sustainability missions. SE2, on the other hand, said that the government's lockdown had limited the organisation's ability to reach the targeted group, specifically the marginalised and underprivileged people, because the organisation had to comply with the government's instruction during the MCO. The result of the findings is presented in Table 4.

Table 4. Conflicts in balancing the economic, social and environmental missions and fulfilling the expectation of the stakeholders

SE	Ranking of shareholders	Conflicts
SE1	<ul style="list-style-type: none"><li>•Community</li><li>• Employees</li><li>•Management</li><li>• Government</li></ul>	Conflicting expectations of the key stakeholders especially between Management and Employees.
SE2	<ul style="list-style-type: none"><li>• Community</li><li>• Employees</li><li>• Government</li></ul>	<ul style="list-style-type: none"><li>• Lock down imposed by the government limit the organisation ability to reach the marginalised and underprivileged people.</li><li>• In fulfilling the expectation of these groups, the organisation has to comply with the Govt instruction.</li></ul>
SE3	<ul style="list-style-type: none"><li>• Community</li><li>• Employees</li><li>• Government</li></ul>	NA
SE4	<ul style="list-style-type: none"><li>• Community</li><li>• Employees</li><li>• Government</li></ul>	NA
SE5	<ul style="list-style-type: none"><li>• Community</li><li>• Employees</li><li>• Government</li></ul>	NA

### **Conclusion**

The sustainability of SEs is crucial to ensure continuous social and community activities which can reach vulnerable groups. SEs face two main key challenges in ensuring the sustainability of their supply chain. First is the lack of funding and support from the Government and corporate sectors. Next is that the revenue from the commercial activities is insufficient to fund SEs' social activities. SEs are having difficulties balancing their social and commercial activities because of the conflicting interest and expectations of the various stakeholders in the SEs. As such, it is critical for the SEs to appropriately handle the interest of their multiple stakeholders if they wish to sustain. Managing conflicting interests among various stakeholders requires the SE to target multiple stakeholders simultaneously (Eiselein et al., 2020) to align their interests. The finding from the study is expected to provide valuable insights and a solid basis for the future development of sustainable SEs in Malaysia. The findings provide a credible input for relevant authorities to formulate more effective enhancement programs and incentives to support SEs and encourage SEs to innovate their way of doing business and social activities that can bring significant impacts to the community. It can also add to the literature on sustainability, especially in the context of SEs in Malaysia.



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# Impact of Internal Audit Effectiveness on Employee Performance: The Case of Bumiputera Academic Institution

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## Abstract

*Internal audit is one of the controls used to govern the administration of a business organization. Through internal audits, employees would be exposed to things they should and should not do. In addition, internal systems and procedures can also be monitored and evaluated through internal audits. Thus, an internal audit should be effective in achieving its intended function as a governance tool. An investigation was carried out in Bumiputera Academic Institution in Malaysia to determine the effectiveness of its internal audit and whether its effectiveness affects employees' performance positively. A total of 215 responses were gathered from academicians in the institution. Findings showed that the mean score of internal audit effectiveness was 2.9, which was at an acceptable level. Furthermore, a regression analysis showed that internal audit effectiveness influenced employees' performance positively. The investigation of the effectiveness of an internal audit is significant to institutions as the findings could become one of the indicators of good institutional governance. Then, early intervention and development programs could be appropriately designed.*

**Keywords:** Governance; Education; Internal control; Organizational development.

## Introduction

Internal audit ensures the integrity of processes in an organization. An internal audit helps an organization to govern business operations and, at the same time, manage business risks. Through internal control, members in organizations would be guided on how to do things correctly and avoid matters that they should not do. Consequently, the work behaviour and performance of employees shall be controlled. However, internal control should be effective to achieve its intended function. The effectiveness of internal control covers audit input, audit activities, audit output, and audit outcomes (Pitt, 2014). Audit input includes all necessary resources such as auditors, funds, and time. Audit activities refer to the assessment activities such as planning and communication. The audit output is the audit report. Finally, audit outcomes are the objectives of the audit, such as stakeholder satisfaction and organizational performance that can be short- or long-term oriented.

Bumiputera Academic Institution,(BAI), is one of the higher learning institutions in Malaysia. The institution performs several internal audits to ensure compliance with various policies, rules, and regulations. However, even though an internal audit is beneficial, the various types and frequent internal audits conducted put pressure on academicians at BAI. Thus, the questions whether the internal audit in BAI is effective and whether its effectiveness affects employees' work performance were raised. To answer these questions, a study was carried out. The objectives of the research were to determine 1) the level of effectiveness of the internal audit ; 2) the relationship between internal audit effectiveness and employee performance at BAI. The research framework is as in Figure 1.1.

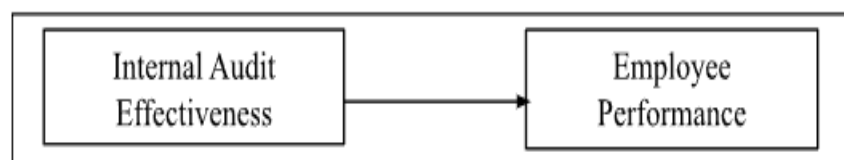


Figure 1. Research Framework

## Methodology

A total of 250 questionnaires were sent out online to all academicians. However, only 215 responses were received and analysed. Questionnaire items were adapted from past studies and divided into three parts: demographic profile of respondents, internal audit effectiveness, and work performance. Internal audit effectiveness and employee performance items were on a 4-point scale. Both reliability and validity tests were tested and fulfilled. Respondents were the lecturers because they were the ones who were frequently audited for various reasons. To achieve the first objective, data was analysed using descriptive analysis. As for the second objective, data was analysed using regression analysis.

## Result and discussion

There were two variables for this research. The Independent variable was internal audit effectiveness, and the dependent variable was employee performance. Descriptive analysis showed that the mean score for internal audit effectiveness was 2.97, indicating that the effectiveness level was more than adequate. Regression analysis revealed that the relationship between internal audit effectiveness and employee performance was significant and positive ( $p=0.001$ ;  $\beta=0.302$ ).

Internal audit in BAI can be considered as effective. The institution had an adequate amount of audit resources whereby the auditors were ethical and capable, time allocation to conduct audit was enough, funds needed for audit were adequate, and support from the top management towards the audit was received. During the audit activities, audit assessments were well-planned, headed by an authorized unit, supported by proper procedures, and communication regarding the audit were carried out with relevant faculties and administration departments. Once audit activities were done, the outcomes were reported in written and presented orally in a timely manner and shared throughout the institution so that lessons could be learned together for future development. The effectiveness of internal audits contributes to academicians' performance. The frequent and various types of internal audits conducted in BAI motivated the academicians to be concerned about their work quality, deadlines, work responsibilities, and key performance indicators.

## Conclusion

Both research objectives were achieved. Firstly, the effectiveness level of internal audits in BAI can be considered high. Secondly, there was a positive relationship between internal audit effectiveness and employee performance. The findings concurred with the Behavioural Theory, where an individual's actions are shaped by his/her interactions with the environment (Krapfl, 2016; Staddon & Cerutti, 2003). Since BAI has conducted frequent and various types of internal audits, audits have become one of the stimuli in conditioning employee actions, which in turn affected their performance.

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# A Preliminary Analysis of Corporate Governance Adoption among Listed Malaysian SMEs

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## Abstract

*This study investigated the level of adoption of the corporate governance framework recommended for Malaysian SMEs. This research sampled 43 SMEs listed on the LEAP Market of Bursa Malaysia. Data on the current corporate governance practices of SMEs in the LEAP market companies were collected from the websites of Bursa Malaysia and selected companies. The data collected included board size, outside directors, women on board and CEO duality. The data was analysed using descriptive analysis. The findings indicated that SMEs in the LEAP Market considered a smaller board and appointment of independent directors as critical governance attributes that are important to strengthen the governance of SMEs. The results also suggested that SMEs' compliance with corporate governance recommendations was minimal and inadequate, specifically with board composition and transparency practices. Although the present study is only descriptive, it adds to the knowledge in corporate governance literature and practices, especially on SME governance.*

**Keywords:** Board composition; Corporate governance; LEAP market; SMEs

## Introduction

This research intended to provide an initial viewpoint on the corporate governance (CG) framework and practices among Small and Medium Enterprises (SMEs). The discussions on the effectiveness of corporate governance often centre on the board of directors (Iturralde et al., 2016); therefore, reviewing the relevant literature was necessary to deliberate governance practices in SMEs. Arguments on the ideal board size are varied and supported on different grounds. A large board is favourable as this type of board is better at overseeing and managing a company's operations (Kiel & Nicholson, 2003). However, SMEs do not require stringent oversight, and the decision for a larger board should be reconsidered as it may be less effective and difficult to coordinate (Afrifa & Taurigana, 2015). Although SMEs commonly have a small board, as the company grows and issues an IPO, board size is expected to grow as a signal of good governance (Palacín-Sánchez et al., 2019).

Although prior literature has classified outside (or non-executive) directors as independent directors, this research differentiates them because not all outside directors are independent. The agency's perspective prompted the necessity to nominate an independent outside director (Van den Berghe & Levrau, 2004). The appointment of an independent director has always been considered an indicator of good governance (Brooks et al., 2009) and favourable to board and company performance (Uhlener et al., 2021). The presence of women on the board is anticipated to bring positive organisational outcomes (Arora & Singh, 2020), including for SMEs. Although women directors on a board enhance profit and performance (Lückerath-Rovers, 2013), there are arguments that it is insignificant (Chapple & Humphrey, 2014). Therefore, the decision to appoint a woman director should be undertaken with prudence and based on qualifications and experience to avoid a detrimental influence on financial performance (Shehata et al., 2017).

The decision on CEO duality may depend on a company's size and challenges (Kiel & Nicholson, 2003), and the effects of this practice are varied depending on the circumstances (Elsayed, 2010). Even though CEO duality is far more prevalent in small businesses due to its unique characteristics and high ownership concentration (Iturralde et al., 2016), detachment of the roles is supposed to be beneficial. This practice will enhance the ability to supervise and allow enforcement of checks and balances (Abor & Biekpe, 2006).

## Methodology

This study conducted a descriptive analysis to uncover the current CG practices of SMEs, focusing on board structure and composition. The analysis involved 43 LEAP Market SMEs. CG data were obtained from the companies' websites and announcements.

## Result and discussion

The descriptive analysis indicated that the CG practices of SMEs, focussed on board characteristics. The analysis included the total population of the LEAP Market companies since its establishment in 2017. The findings of this research are inconclusive as there is unavailable data on SMEs' CG practices. The analysis of these 43 SMEs listed on the LEAP Market led to the conclusion that the CG practices of these companies are very minimal and inadequate.

Determining board attributes is crucial at the initial point of listing in the LEAP Market. The finding indicated that the board size of the LEAP Market SMEs can be considered small but ideal, particularly to minimise the issue of an ineffective board and coordination (Arora & Singh, 2020). Although the average membership is below the number recorded in the past studies (Afrifa & Taurigana, 2015; Arora & Singh, 2020; Barroso-Castro et al., 2020), it is anticipated that board size will increase as an indication of sound corporate governance (Palacín-Sánchez et al., 2019).

The analysis of the board of directors was extended by examining the composition of SMEs' board members. The result revealed that most SME companies had at least one independent director. This result has rationalised a higher percentage of companies without outside (non-independent) directors on the board as they opted for a better option, which is appointing independent directors. Consistent with (Arora & Singh, 2020), the appointment of an independent director to the board will assist in resolving agency conflicts caused by the separation of ownership and control. Having women directors on a board also has received considerable attention among public SMEs as their appointment would benefit the company (Lückerath-Rovers, 2013; Arora & Singh, 2020).

The result also suggested that the separation of roles between the chairman and the CEO has received considerable attention among the public SMEs. Although CEO duality is more prevalent and can be an advantage specifically in the context of SMEs (Iturralde et al., 2016; Li et al., 2022), the decision of more than the majority of these companies to detach the role would enhance checks and balances (Abor & Biekpe, 2006) as the companies become listed entities.

## Conclusion

This research investigated the corporate governance practices in SMEs, mainly the LEAP Market SMEs. This study's contribution is twofold. First, this study contributes to corporate governance literature, specifically in Malaysian SMEs. Secondly, this study highlights directors' attributes and offers recommendations to strengthen SMEs' board composition and structure. However, the study also has some limitations in generalisation and analysis. Future research should address the above limitations.

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# Evaluating the Factors Influencing Share Price Volatility of General Insurance Companies Listed in the Dhaka Stock Exchange

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## Abstract

*The goal was to determine the causes of share prices fluctuations in Bangladeshi general insurance firms, particularly those listed on the Dhaka Stock Exchange (DSE) Ltd. The price of DSE shares fluctuates regularly and investors are left perplexed while trying to make an investment choice. Thus, this research explored the relationship between share price and many essential variables, including earnings per share, dividends per share, and business size, as well as two additional variables; financial investment and net operating cash flow per share. This study examined 35 general insurance businesses publicly traded on the DSE from 2016 to 2020, totalling 175 observations. The hypothesis was tested using the STATA 13 software by using a panel data set in a regression model with fixed effects using the Driscoll and Kraay's standard errors. The results showed that the share prices of general insurance companies were highly affected by Earnings per Share (EPS), Net Operating Cash Flow per Share (NOCFPS), and FI (Financial Investment). This study adds to the body of knowledge about the factors affecting share prices in a developing economy such as Bangladesh.*

**Keywords:** Dhaka Stock Exchange (DSE); General insurance; Share price volatility; Investors

## Introduction

Capital markets act as a mechanism for securities and as a platform for efficient interactions between savers and borrowers through the assembling of funds, sharing of risks, and wealth redistribution among stakeholders (Adekunle, Agbadudu, & Ammeh, 2015). The development of industry and the general economy is the primary cause for the formation of the stock market which is vital to the current economic system because it supports entrepreneurial growth (Pethe & Karnik, 2000). The stock market is dynamic, which is why investors and fund managers have often faced the challenge of precisely forecasting stock prices in order to earn a profit (Tandon & Malhotra, 2013).

A stock (share) price is the value of a single share of stock of a corporation. Stock prices, as we all know, fluctuate significantly over time. Certain investments can grow swiftly and make investors wealthy, while others can rapidly depreciate, rendering investors penniless. Stock prices fluctuate due to economic factors at work in the market, as well as supply and demand for the stock. Consumers' belief that a firm's future is promising increases demand and price, but if they believe a company will perform badly then this decreases demand and price (Rajakulanajagam, 2015). Whether they invest or not, investors can use share price as one of the essential indications (Gill, Biger, & Mathur, 2010). Market expectations of a company's present and future profitability are reflected in the price of its stock (Griffith, Levell, & Stroud, 2020). Srinivasan (2012) stated that investors may benefit greatly from studying the influence of numerous fundamental aspects on stock price. Investors are known to be risk-averse, and the variability of their assets is a significant source of anxiety for them since it represents the degree to which they are exposed to risks. On the other hand, investors should be aware of the factors that influence share prices to make an informed investment decision. According to Sharif, Purohit, and Pillai (2015), several internal and external variables influence stock prices. It is critical for every country's economic growth to have a robust financial industry. Like other financial organizations, insurance companies are part of the financial industry, which is critical to the growth of a country's economy (Janjua & Akmal, 2015).

A market relations system would be incomplete without insurance. By guaranteeing that damages are fully and promptly compensated and drawing temporarily available assets from the insurance scheme to the investment operations of insurance organizations, it plays a role in maintaining social and economic stability (Mashkina, Yakimova, Golovleva, & Veliev, 2020). The insurance business contributes significantly to economic growth by providing capital for investment. Policyholders of insurance companies can make use of a wide range of services. This includes financial planning and risk management and providing legal defence in the event of a liability issue. It is therefore critical to have a growing and robust insurance market, particularly in emerging countries (Aktaş & Seyfettin,

2015). According to Outreville (1998), the insurance industry contributes significantly to a country's economic development by providing financial security for individuals and businesses against the risk of financial loss due to unanticipated events. Insurance, like banking, plays an integral part in economic growth (Haiss & Sümegi, 2008).

According to Kothari (2001), at least four factors contribute to the popularity of capital market research fundamental analysis and valuation, efficiency assessments of capital markets, accounting's involvement in contracts and politics, and disclosure regulation. A few studies have attempted to explain the relationship between share price volatility and other variables, and associations with fundamental variables have been discovered. However, the Dhaka Stock Exchange (DSE) market is so unstable that share prices fluctuate more frequently, which is why investors become perplexed when making an investment decision. The primary purpose of this study was to examine the relationship between firm-specific variables as predictors of the insurance industries' market price per share in Bangladesh. This study specifically evaluated the effect of earnings per share (EPS), dividend per share (DPS), natural logarithm of total assets (Ln Size), and new variables, whereas Net Operating Cash Flow per Share (NOCFPS), and natural logarithm of financial investment Ln FI) on market price per share.

## **Methodology**

### *Data Collection and Sampling*

The most reliable source of information was the publicly available annual reports of each insurance firm. Only Bangladeshi general insurance firms were taken into account in this study. The DSE has 39 publicly-traded insurance companies, of which 35 were used as a sample due to a lack of data, while four were left out. It was decided to build the panel data over five years, from 2016 to 2020. This analysis did not include life insurance businesses listed on the DSE because of their different business scopes.

The market value per share (MPS) in Bangladeshi currency (taka per share) was the dependent variable in this study. From 2016 to 2020, we considered each year's final working day price. For reinvestigation of the relationship, the most widely used fundamental variables were selected by an extensive literature review. Two new variables that investors highly considered for investing in financial institutions like insurance companies were also included in the research. This study included the following variables. There were five independent variables: EPS, DPS, Ln Size and new variables. NOCFPS and Ln FI.

### *Hypotheses Development*

Earnings per Share (EPS) and Market Value per Share (MPS): It is found from the previous research that there is a statistically significant positive relationship between earnings per share (EPS) and market value per share (MPS) (Adekunle et al., 2015; Al-Ali, 2020; Amin, 2018; Aveh & Awunyo-Vitor, 2017; Bhattarai, 2018; Bustani, 2020; Tandon & Malhotra, 2013). However, few studies also found a negative correlation between EPS and MPS. Therefore, this study posited the following hypothesis:

**H<sub>1</sub>:** *There is a statistically significant relationship between Earnings per Share (EPS) and Market Value per Share (MPS).*

Dividends per share (DPS) and Market Value per Share (MPS): Dividends per share are the fraction of net income paid per share of common stock by a publicly traded company. An insignificant negative relationship has been found between dividend per share (DPS) and market value per share (MPS) (Ahmad et al., 2018; Al-Ali, 2020; Aveh & Awunyo-Vitor, 2017) and a positive relationship indicated by the work of (Bhattarai, 2018; Sharif et al., 2015; Tandon & Malhotra, 2013). On the basis of this, this study formulated the following hypothesis:

**H<sub>2</sub>:** *There is a statistically significant relationship between Dividend per Share (DPS) and Market Value per Share (MPS).*

Net Operating Cash Flow per Share (NOCFPS) and Market Value per Share (MPS): Cash flows from operations may be used by investors to value banks' equity since they are a good predictor of future earnings and revenues (Burke & Wieland, 2017). Stock returns are influenced by operating cash flow (Kasmiati & Santosa, 2019; Saymeh & Salameh, 2019; Ali Al Hayek, 2018, Foerster et al., 2017). Consequently, this study formulated the following hypothesis:

**H<sub>3</sub>:** *There is a statistically significant relationship between Net Operating Cash Flow per Share (NOCFPS) and Market Value per Share (MPS).*

Financial Investment (FI): According to Dhananjaya (2021), the market mispricing perspective, there should be a large positive correlation between stock mispricing and business investment. The findings of Kang (2021) discovered that stock price delay premium is less prominent for companies with a high level of corporate investment. Corporate investment reduces a firm's risk, and a change in risk alters the behavior of a market maker, resulting in an increase in stock liquidity (Kang et al., 2017). Expenditure ratio and variation in general insurance earnings have an inverse relation with the value relevance of accounting information (Davies, 2018). The results of Xiong (2016) showed that stock liquidity has a beneficial impact on corporate investment.

**H<sub>4</sub>:** *There is a statistically significant relationship between Financial Investment (FI) and Market Value per Share (MPS).*

Company Size (Size): Firm size has an impact on stock price (Ahmad et al., 2018; Bhattarai, 2018; Gautam & Bista, 2019; Mazviona et al., 2017; Sharif et al., 2015). On the basis of this, this study formulated the following hypothesis:

**H<sub>5</sub>:** *There is a statistically significant relationship between Company Size (Size) and Market Value per Share (MPS).*

The above hypothesis was tested using a linear function model. The current research explored the relationship between market value per share and Earnings per Share (EPS), Dividend per Share (DPS), Net Operating Cash Flow per Share (NOCFPS), Financial Investment (FI), and the size of the company (Size). The Specification of the Linear regression model was as follows:

$$MP_i = \beta_0 + \beta_1 EPS_i + \beta_2 DPS_i + \beta_3 NOCFPS_i + \beta_4 LnFI_i + \beta_5 LnSize_i + \varepsilon_i$$

$\varepsilon$  = Error terms,  $\beta_0$  = constant term Independent and  $\beta_1$  to  $\beta_5$  = regression coefficient for respective variables

## Result and Discussion

### Descriptive Analysis

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
MPS	175	31.13543	18.52479	9.70	130.6
EPS	175	1.988914	1.121617	0.22	7.61
DPS	175	0.121586	0.051169	0.00	0.32
NOCFPS	175	2.192286	2.313853	-10.43	10.30
ln_FI	175	6.685407	0.836182	5.091232	9.010286
Ln_Size	175	7.491271	0.902568	4.862599	9.345871

The preceding Table contains descriptive data, such as the maximum, minimum, mean, and standard deviation, for the dependent and independent variables utilized in this study over five years, from 2016 to 2020. According to the study, market prices ranged between 130.60 and 9.70, with a mean of 31.15 and a standard deviation of 18.52. The mean and standard deviation values for EPS are 1.99 and 1.12, DPS is 0.12 and 0.05, NOCFPS WAS 2.19 and 2.31, lnFI is 6.69 and 0.84, and lnSize WAS 7.49 and 0.90, respectively.

The correlation matrix depicts the link between two variables; this relationship may be classified into three categories: low correlation (0.10-0.29), medium correlation (0.30-0.49), and high correlation (0.50-0.99) (Pallant, 2020).



Table 2: Correlation Matrix with MPS

	MPS	EPS	DPS	NOCFPS	ln_FI	Ln_Size
MPS	1.000					
EPS	0.5752*	1.000				
DPS	0.5051*	0.8811*	1.000			
NOCFPS	0.3467*	0.3614*	0.2738*	1.000		
ln_FI	0.2980*	0.4018*	0.4172*	0.0532	1.000	
Ln_Size	0.2069*	0.3187*	0.3215*	0.0007	0.8208*	1.000

Note: Significant at \*1%

The correlation matrix as shown in Table 2 represents the correlation between the independent variables in this research. An enormous connection existed between DPS and EPS (88.11 percent significant at the 1% level), while the lowest correlation existed between NOCFPS and LnSize (0.07% and insignificant). The majority of variables in this study had a moderate degree of connection. It is said that if there is no correlation between variables of more than 90%, indicating that there is no multicollinearity.

Table 3: VIF and Tolerance value

Name of Variable	VIF	Tolerance value
EPS	4.86	0.205822
DPS	4.61	0.217003
ln_FI	3.34	0.299493
Ln_Size	3.09	0.323566
NOCFPS	1.18	0.848783
Mean VIF	3.41	

Along with the correlation matrix, this research examined the issue of multicollinearity by examining the VIF and tolerance value, as shown in Table 3 (Hamilton, 2012). All research variables had a VIF value of less than 5, with a tolerance value greater than 0.10. According to the literature, the VIF value should be less than ten, and the tolerance value should be 0.10 concerning the VIF value (Allison, 2012; Hair, Black, Babin, Anderson, & Tatham, 2006). This implied that the research model did not have a multicollinearity problem.

#### *Test for and Heteroskedasticity and Cross Sectional Dependence*

Additionally, the Breusch-Pagan and Pesaran tests were used in this investigation to determine whether or not the data set had heteroskedasticity and cross-sectional dependencies. Both tests had significant results at the 1% level (Table 4); the study had demonstrated that the data utilized for the investigation exhibited heteroskedasticity and cross-sectional dependence issues. As a result, Driscoll and Kraay's standard errors based on Hoechle (2007) were used to fix the two problems, and they are resilient to heteroskedasticity and cross-sectional dependence. Modified Driscoll and Kraay's standard errors as a nonparametric covariance matrix estimator for fixed-effect models using balanced and unbalanced panel data (Hoechle, 2007).

Table 4: Results of Heteroscedasticity and Cross Sectional Dependence Tests

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity	Cross Sectional Dependence Test
Ho: Constant variance Variables: fitted values of MPS	Pesaran's test of cross sectional independence = 10.150, Pr = 0.0000
chi2(1) = 64.45	Average absolute value of the off-diagonal elements = 0.554
Prob > chi2 = 0.0000	

## Regression Analysis

The analysis of this study revealed that EPS, NOCFPS, and Ln FI all had a significant effect on the market price of shares. However, DPS and company size Ln Size had an insignificant impact on the market price of shares of general insurance companies listed on the DSE. The coefficient value of earnings per share (Table 5) concluded that if earnings per share increased, the market price of the company's shares increased as well, where the earnings per share's coefficient value was 7.93, which indicated that for every one-unit increase in earnings per share, assuming all other independent variables remain constant, the market price of a share rose by 7.93 units. The coefficient estimation of dividends per share was -1.47, which specified that for every one-unit increase in dividends per share, assuming all other independent variables remain constant, the market price of a share fell by 1.47 units. In other words, when the dividend per share increases, the stock's market price decreases. Net operating cash flow per share (NOCFPS) had a coefficient value of 1.35, which is a positive number indicating a favourable association. This meant that the higher the company's net operating cash flow per share, the higher the company's market price per share. In other words, a rise in net operating cash flow per share resulted in a 1.35 increase in the market share price. The coefficient estimation of Ln FI was 3.52 with a p-value of 0.001. This result indicated that a 1 point increase in financial investment resulted in an increase of 3.52 points in market value per share MPS of general insurance companies. The coefficient value for the company size was -1.55, which is a negative number indicating a negative association. This meant that when a company's size increased, the market price of its shares decreased. In other words, the company's size resulted in a 1.55% fall in the market price of its shares for each percent increase.

Table 5. Result of Regression Model Using Fixed-Effects with Driscoll and Kraay's Standard Errors

Variables	Parameters	Coefficient	Std. Err.	P >  z
Constant	$\beta_0$	0.7326837	20.9117	0.972
EPS	$\beta_1$	7.930194	1.516932	0.000
DPS	$\beta_2$	-1.464654	33.55989	0.965
NOCFPS	$\beta_3$	1.348911	.6604134	0.041
ln_FI	$\beta_4$	3.522224	1.039739	0.001
Ln_Size	$\beta_5$	-1.551764	2.1392	0.468
R-squared		0.365		
Observations		174		
Number of ID		35		

The above data represented a positive significant relationship between MPS and EPS with a p-value of 0.000 and the result is consistent with (Adekunle et al., 2015; Al-Ali, 2020; Amin, 2018; Aveh & Awunyo-Vitor, 2017; Bhattarai, 2018; Tandon & Malhotra, 2013) and contrary to the findings of (Sharif et al., 2015). An insignificant negative relationship has been found between MPS and DPS with a p-value of 0.965 the result is similar to the result of (Ahmad et al., 2018; Al-Ali, 2020; Aveh & Awunyo-Vitor, 2017) and contradict with (Bhattarai, 2018; Sharif et al., 2015; Tandon & Malhotra, 2013). MPS and NOCFPS had a significant positive relationship with a p-value of 0.04. A statistically significant favourable relationship between MPSFI was found from the result of the data with a p-value of 0.001. An insignificant negative relationship was found between MPS Size with a p value of 0.468. The finding is supported by the result of Mazviona et al. (2017) and the result contradicts with the results of Muhannad et al. (2018), Bhattarai (2018), Sharif et al. (2015).

## Conclusion

This research examined the relationship between share price and several essential variables, such as earnings per share, dividends per share, and firm size, along with two new variables, financial investment and net operating cash flow per share. From 2016 to 2020, this study evaluated 35 general insurance companies publicly traded on the DSE. According to the findings of this study, the stock

prices of DSE listed general insurance firms are affected by EPS, NOCFPS, and Ln FI, while DPS and Ln Size did not influence the market price of shares. As a result of this research, investors and fund managers may have to pay more attention to these crucial aspects when anticipating stock returns and stock prices. The main contribution of this research is the identification of the influence on the share prices of DSE-listed general insurance businesses of two new variables: financial investment and net operating cash flow. This paper paves the way for further research into the insurance industry's impact on other variables, in addition to what we have discovered.

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# The Influence of Internal Governance on Social Performance of Non-Profit Organizations

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## Abstract

*In non-profit organizations', social performance is often the main concern of stakeholders; whether the organization's performance is indeed aligned with their social mission. This issue has become more critical in recent years as more non-profit organizations play a growing role in a country's social and economic well-being. To better understand the social performance of non-profit organizations, a study on the factors that leads to them should be conducted. Moreover, empirical studies on the connection between internal governance and social performance, particularly in non-profit organizations, is very limited, especially in developing countries like Malaysia. Thus, this study examined the relationships between internal governance represented by internal control and organizational structure on social performance. The study also analysed the mediating role of the monitoring process to see whether or not it can explain the relationship between internal governance and social performance. Survey questionnaires were employed as a means of data collection and distributed to 300 non-profit organizations purposively selected and screened based on the list from the Company Limited by Guarantee (CLBG). Structural Equation Modelling (SEM) analysis was done based on 73 useful responses received from the respondents. It was found that only internal control and monitoring process significantly and positively affected social performance. Organizational structure did not have a significant effect on social performance. The study can contribute to the improvement of the performance of non-profit organizations in Malaysia and encourage the development of research.*

**Keywords:** Internal Governance; Social Performance; Internal Control; Non-profit Organizations.

## Introduction

Nowadays, the nation has recognized the critical role of non-profit organizations (NPs) in meeting the needs of specific groups that are not served by the government and the private sector. As a result, those who are in charge in managing non-profit organizations must identify the needs and potential consequences of their actions. Furthermore, many stakeholders have increased their oversight of NPs. Hence, managers in NPs should take the necessary steps to continue to achieve the goals of the organization. Therefore, managers can no longer remain passive and only meet the existing compliance requirements. Instead, they must actively develop a performance standard by which their NPs will be measured. (Spillan & Ziemnowicz, 2011)

One of the most important current challenges facing non-profit organizations is to demonstrate that resources are being used properly to fulfil their social missions. In the past few decades, social performance has become an important academic topic as researchers attempt to understand the impact of companies' actions on social and ecological outcomes rather than merely on financial metrics (Bai, 2013). Compared with profit organizations, NPs have been grappling with social performance because they receiving charitable contributions from the public and enjoying tax subsidies. Besides, they have an explicit obligation to pursue charitable missions for social betterment. However, self-dealing and market competition can cause non-profit organizations to deliver a lower-than-optimal level of social performance (Bouckaert and Vandenove 1998). Furthermore, conclusions drawn from the for-profit sector cannot easily be applied to the non-profit sector because non-profit organizations with non-monetary goals and non-distribution constraints have a different level of organizational commitment to social performance, as well as a different composition of the board of directors' responsibilities, and preferences (Rose-Ackerman 1996). As a result, more research is needed to see how governance mechanisms affect the social performance of NPs. Besides, there is relatively lack of research on the mainstream business practice application for NPs (do Adro et al., 2021).

The non-profit sector has an essential and significant role in the economy in terms of human resource and employment. For instance, in 2014, NPs employed many volunteer workers, and the operating

expenditure represented 4.5% of the gross domestic product, which is equivalent to 4 times the total sales of the world's largest private corporation during that time (Hoque & Parker, 2014). Worth, (2018) agreed that even though universal management principles could be applied to all types of organizations but the non-profit sector has unique characteristics that require particular distinctive management and governance that need to be looked into. The difference of non-profit management from other business management is in terms of several ways, such as trade-offs (Herman, 2016), stakeholders management (Salamon & Anheier, 1995), performance measurement, and special mission (Worth, 2018).

Recently there are unethical cases involving NPs that negatively impact the organization's fund. The cases such as Yayasan Akalbudi, Yayasan Nurul Yakeen and Yayasan 1MDB have tarnished the reputation of NPs around the world. According to the Transparency International Corruption Perception Index, in 2020, Malaysia was ranked 57<sup>th</sup> among 179 countries with a score of 51 (the lower the score, the more the corruption level). This indicated that the corruption cases continued to be reported, and Malaysia has been criticized for reportedly high unethical conduct levels (Johari et al., 2020). Thus, the accountability of organizations is becoming more acute and adversely affects the economy and national development.

Compared with other developed countries, the low regulatory guidelines in Malaysian are one of the factors triggering the problems such as corporate scandals, mismanagement of fund and fraudulent activities involving NPs (Roslan et al., 2017). The absence of regulated standard enforcement should be addressed by the NPs by tightening internal governance control in various aspects such as internal control.

## Methodology

A questionnaire was used as the research instrument in this study as it is convenient way of collecting useful data. The questionnaire was distributed through electronic mail, Google forms, postal and personally to the board of trustees of selected NPs. The respondents were required to provide their agreement or disagreement on their organization's corporate governance practices and performance.

Three hundred sets of questionnaires were distributed to NPS that were registered with the Company Commission of Malaysia (CCM) as the company was limited by guarantee (CLBG). However only 73 were returned (24 per cent. The questionnaires were designed to gather information about the internal governance practices and social performance in the NPs. The questionnaire was structured using the Likert format with a seven-point response scale. The independent variable consisted of internal control and organizational structure adapted from Halim, Mustika, Sari, Anugerah & Mohd Sanusi (2017). Meanwhile, the dependent variable adapted measurement items from Bagnoli and Megali (2011).

## Result and Discussion

Under the reflective measurement model, two (2) types of validity were assessed: convergent validity and discriminant validity. Convergent validity is the degree to which the indicator of a specific construct converges or share a high proportion of variance in common (Hair, Black, Babin & Anderson, 2010, p. 771). As suggested by Hair, Hult, Ringle and Sarstedt (2017), factor loading, composite reliability (CR) and average variance extracted (AVE) are used to assess convergent validity. The presentation of results is shown in Table 1.

A majority of the loadings exceeded the recommended value of 0.708 (Hair et al., 2017) except for item MP2 (0.242). Therefore, it was deleted since the deletion resulted in higher CR and AVE. All construct meets the threshold values/minimum cut off values for AVE and CR, where CRs were greater than 0.7 and all AVEs were greater than 0.5 after the process of removing the items with low factor loading (Hair et al., 2017). Hence, it can be concluded that the constructs meet the reliability and convergent validity requirement at this stage.

Table 1. Measurement Model

Construct	Items	Loadings	CR	AVE
Social Performance	SP1	0.842	0.864	0.680
	SP2	0.872		
	SP3	0.755	0.849	0.584
Internal Control	IC1	0.811		



	IC2	0.724		
	IC3	0.766		
	IC4	0.754		
Organizational Structure	OS1	0.819	0.905	0.827
	OS2	0.763		
	OS3	0.799		
Monitoring Process	MP1	0.979	0.837	0.631
	MP2	0.833		

Table 2 presents the results of a discriminant analysis by means of using the Fornell and Lacker criterion. Based on the result, the square root of AVE of a construct is larger than the correlations between the constructs and other constructs in the model. The result indicated that each construct was able to capture a unique phenomenon not symbolized by any other construct in the model. In other words, the construct was not highly correlated with other tests intended to evaluate theoretically different constructs (Campbell& Fiske, 1959; Hair et al, 2017).

Table 2. Discriminant Validity using Fornell and Lacker Criterion

Construct	Internal control	Monitoring Process	Organizational Structure	Social Performance
Social Performance	0.704			
Internal Control	0.695	0.909		
Organizational Structure	0.385	0.456	0.794	
Monitoring Process	0.386	0.141	0.312	0.825

Table 3 shows the results of cross-loading. Using the cross-loading analysis to assess discriminant validity, it is important to note that each indicator should load high on its own constructs but low on other constructs. As shown in the Table, all indicators loaded high on its own constructs but low on the other constructs. This indicated that discriminant validity was achieved as the constructs were distinctly different from each other.

Table 3. Cross Loading

Items	Internal Control	Monitoring Process	Organizational Structure	Social Performance
IC1	0.811	0.610	0.016	0.275
IC2	0.724	0.352	0.179	0.370
IC3	0.766	0.656	0.065	0.268
IC4	0.754	0.568	0.176	0.221
MP1	0.661	0.979	0.179	0.159
MP3	0.632	0.833	0.162	0.058
OS1	0.331	0.364	0.712	0.225
OS2	0.268	0.366	0.686	0.127
OS3	0.306	0.364	0.949	0.316
SP1	0.324	0.116	0.485	0.842
SP2	0.355	0.015	0.177	0.872
SP3	0.277	0.209	0.231	0.755

In this study, three direct hypotheses were developed between the constructs. Using a bootstrapping procedure with 500 sub-samples, the result showed the approximate t-values for significant testing of the structural path (Wong, 2013). Based on the assessment of the path coefficient as shown in Table 4, two relationships were found to have a t-value of more than 1.28, thus significant at least at the 10% level. Specifically, the predictors of internal control ( $\beta=0.286$ , t value =1.84) and monitoring process ( $\beta=0.515$ , t value =3.613), thus H1 and H2 were supported. The R2 for all the predictors on social

performance was equal to 25.7% which indicated a moderate model. For organizational structure, the t values indicated an insignificant relationship. Thus, H3 was not supported.

Table 4. Hypothesis Testing

Hypothesis	Relationship	Beta	Standard Error	T Value	Decision
H1	Internal control->Social Performance	0.286	0.156	1.841	Supported
H2	Monitoring Process -> Social Performance	-0.515	0.142	3.613	Supported
H3	Organizational Structure -> Social Performance	0.117	0.170	1.006	Not Supported

As previously suggested the monitoring process has triggered a considerable increase in research analysing the effect internal governance (internal control and organizational structure) has on social performance. Therefore, further hypothesis testing was done to see the mediating effect of the constructs. Based on the assessment of the path coefficient as shown in Table 5 only one mediating relationship was found to have t-value of more than 1.28. thus significant at least at the 10% level. Specifically, the monitoring process mediated the relationship between internal control and social performance ( $\beta=0.379$ , t value =3.323), Thus, H4 was supported.

Table 5. Hypothesis Testing

Hypothesis	Relationship	Beta	T Value	P Value	Decision
H4	Internal control->Monitoring process -> Social Performance	0.379	3.323	0.001	Supported
H5	Organizational structure -> Monitoring Process -> Social Performance	0.046	0.842	0.400	Not Supported

## Conclusion

This study was conducted to provide further understanding of corporate governance practices and how the practices affect social performance in NPs in Malaysia. NPs Specifically, this study examined the effects of internal control, organizational structure, corporate monitoring process on the social performance of the NPs. Based on the results, there are a few contributions to respective parties such as practitioners and the academia/researchers. Practitioners can use these findings to understand how internal control, organizational structure, and monitoring process can improve the social performance of NPs. It is important for NPs to implement a proper corporate governance practice to ensure the accomplishment of social objectives. The findings can help managers of NPs to measure their performance through observation of the internal governance practices established and managed by them. As for the academia, this study could provide them with the latest literature that relates to this limited research area in Malaysia. Hence, it helps to increase and expand the evidence regarding corporate governance practices, specifically in the NPs sector. Besides, it is hoped to encourage more research in the field of NPs in Malaysia.

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# Determinants of Acceptance of the Artificial Intelligence (AI) Technology : Empirical Evidence from the Malaysian Shared Service Industry.

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## Abstract

*Using the Theory of Planned Behavior (TPB) and the Unified Theory of Adoption and Use of Technology (UTAUT), this study aimed to evaluate the acceptance of artificial intelligence (AI) among heads of finance and accounting units in the shared service industry. A cross-sectional study of 75 heads or representatives of the Shared Service Industry in the Finance and Accounting departments was conducted using a structured questionnaire. The findings indicated that performance expectancy, attitude, skill, and technical capability all influenced the acceptance of AI technology. In contrast, there was no significant relationship between the acceptance of AI technology and effort expectancy, social influence, nor facilitating conditions. The findings provide insights on the key areas that must be emphasized when firms employ AI, specifically in finance and accounting.*

**Keywords:** Artificial Intelligence (AI); performance expectancy; effort expectancy; social influence

## Introduction

Artificial Intelligence (AI) is one of the key technologies featured in Malaysia's Industrial Revolution 4.0. Malaysia has announced the National AI Framework to help the country accomplish its AI goals (Kaur, 2019). According to research conducted in 2019 by Microsoft and the International Data Corporation (IDC) across Asia Pacific, Malaysia was not fully prepared for AI. According to the report, only 26% of Malaysian businesses have begun their AI journey. Furthermore, according to K Raman, managing director of Microsoft Malaysia, 82 percent of firms prioritise future skills and skills retraining (Bernama, 2019; Microsoft – IDC, 2019). In Malaysian publicly traded enterprises, AI acceptability and usage is still low. He went on to say that only around 1% of corporations, or about 20 organisations, had cited "artificial intelligence," "big data," and "machine learning" in their annual reports. These terms were largely used in the Chairman's Statement as well as their future strategic business strategy. This suggests that AI acceptability among Malaysian public-listed corporations is still in its early stages, or at least at the awareness stage (Omar et al, 2017).

Recently, AI has advanced significantly, particularly in the accounting industry, where it has shifted the focus away from paper and pencil entry and toward computer and software entry (Chukwudi et al, 2018). Accountants provide information services to their clients, according to Saara (2013), where an accountant employs other resources such as computers and software approaches to provide relevant information. Furthermore, AI is quick and can be linked into accounting processes that entirely automate data handling and processing (Jdrzejka, 2019; Madakam et al, 2019; and Mendling et al, 2018). Automated data entry and data classification can assist accountants more effectively in evaluating broader financial patterns and providing better recommendations, resulting in better decision-making. Due to the rise of AI, accountants' use of paper and pencil to enter data will gradually fade away, becoming a thing of the past (Greenman, 2017). Accountants will need to specialise and use cutting-edge technology to survive in this modern era (Howieson, 2003). Most accountants need to improve their skills with the right training to meet the needs of the job market.

Although AI is recognized as a strong business enhancer, both employees and management could decline the acceptance of AI in organizations due to specific reasons. From the top management or directors' point of view, the adoption of AI would be expensive and high risk due to the high degree of uncertainty that can lead to adverse outcomes (Osoba & Welser, 2017). Therefore, the top management or directors may not consider accepting AI due to the inability to see the potential benefits of AI and prevent the cost-outweighed benefits situation (Omar et al, 2017). According to Ratnasingam et al (2020), a significant challenge faced by the Malaysian sector is the lack of awareness and skilled workers. Training cost would contribute to the enormous cost that the company would incur if the company decided to accept and adopt AI in the business operations. Moreover, Omar et al (2017) found that the acceptance of AI among Malaysian public listed companies is still at an early stage or mainly

at the awareness level. This research is therefore intended to study technology acceptance of AI among the head of finance and accounting units in the shared service industry in Malaysia.

## Methodology

The purposive sampling technique is used to obtain the desired information from a specific category of individuals. This choice of people is in their best position to provide information since they meet specific research criteria (Sekaran, & Bougie, 2016). In this study the main inclusion criteria were operating under the main cluster of Global Business Services (GBS), with its core activities accounting and finance. Generally, sample sizes greater than 30 and less than 500 are appropriate for most research according to the rule of thumb for determining the sample size, as suggested by Roscoe (1975). Within this limit, it is recommended that the minimum sample size needed should be around 30 participants (Space, 2014). The target companies were 93 based on the given characteristics in which the target respondents will be 93 heads or representatives of the finance and accounting units in each company. The closed-ended online questionnaire was developed by adapting several questionnaires from previous studies, which were from Chen, (2019); Gursoy et al, (2019); and Sohn & Kwon, (2020b). The survey instrument consisted of two parts, which were key questions and demographic information. The demographic information section asked about gender, age, marital status, education, income, and working experience in the shared services. The main questions consisted of several items to measure the six independent variables and one dependent variable. Items were measured using a 6-point Likert scale (1 – strongly disagree; 6 – strongly agree). The data collected from the online survey was systematically compiled using Microsoft Excel. The data gathered was cleaned, sorted, categorized, coded, reversed coded and analysed using the Statistical Package for Social Science (SPSS).

## Result

The Pearson correlation coefficient showed a significant positive correlation between AI performance expectancy and acceptance of technology ( $r = .639, p < .01$ ). There was a significant positive correlation between effort expectancy and technology acceptance ( $r = .259, p < .05$ ). The correlation between social influence and technology acceptance showed a significant positive correlation ( $r = .329, p < .05$ ). The fourth independent variable facilitating condition provided a significant low positive correlation with acceptance of AI technology ( $r = .472, p < .05$ ). The Pearson correlation coefficient between the fifth independent variable, attitude and technology acceptance, showed a significant moderate positive correlation ( $r = .644, p < .05$ ). The correlation coefficient showed a significant low positive correlation between skill and technical capability with acceptance of AI technology ( $r = .340, p < .05$ ).

Multiple regression analysis showed a R-square = .571. This value indicated that 57.1 per cent of the variation in acceptance of AI technology can be predicted from the independent variables: performance expectancy, effort expectancy, social influence, facilitating conditions, attitude, and skills and technical capability. While the adjusted R squared was 0.531. The value of adjusted R-square was 53.1 per cent indicating the tendency to describe the acceptance of AI technology by performance expectancy, effort expectancy, social influence, facilitating conditions, attitude, skills and technical capability, considering the sample size and number of independent variables. This approximates the degree of correlation and does not reflect the degree to which the dependent variable is correlated with any independent variable.

The unstandardized coefficient,  $\beta_1 = 0.380$  for performance expectancy, indicated that the score for acceptance of AI technology is predicted to increase on an average of 0.380 when the performance expectancy variable goes up by one. On the other hand, the coefficient of effort expectancy,  $\beta_2 = -0.069$ , predicts the score of the acceptance of AI technology to decrease on an average of 0.069 when the effort expectancy variable goes up by one. The same goes with the unstandardized beta coefficient of social influence, a negative coefficient,  $\beta_3 = -0.110$ . It would indicate that the score of acceptance of AI technology is predicted to decrease on an average of 0.110 when the social influence variable's score goes up by one. While the facilitating condition variable's beta coefficient was positive, at  $\beta_4 = 0.017$ , which predicts the score of acceptance of AI technology to increase on an average by 0.017 when the facilitating condition variable goes up by one. Next, the attitude factor's coefficient was also positive at  $\beta_5 = 0.255$ , indicating that the score of acceptance of AI technology is predicted to increase on an average of 0.255 when the attitude variable's score goes up by one. Lastly, the positive beta

coefficient at  $\beta_6 = 0.169$  for skill and technical capability variable indicated that acceptance of AI technology is predicted to increase on an average of 0.169 when the score of skill and technical capability increases by one.

Furthermore, findings showed that the acceptance of AI technology is strongly predicted by performance expectancy ( $\beta = 0.466$ ), followed by attitude ( $\beta = 0.423$ ), skill and technical capability ( $\beta = 0.22$ ), social influences ( $\beta = -0.189$ ), effort expectancy ( $\beta = -0.092$ ), facilitating conditions ( $\beta = 0.027$ ). The R square value shown in Table 7 earlier indicates 57.1% of the variation in the acceptance of AI technology can be explained from the six mentioned independent variables.

## Discussion

The findings of this study could guide organizations in developing plans and strategies to adopt AI in business services, especially shared services organizations in Malaysia. The findings are in line with prior studies, which enable the generalization of the results obtained. Corroborating many prior studies provides further empirical support that performance expectancy has a significant positive relationship with acceptance of AI. Potential users are willing to accept and adopt AI if they perceive that AI could simplify their daily tasks. The result is consistent with previous literature that convinced the users to accept AI's use if they believe the attributes of AI that could bring the expected benefits and subsequently affect the adoption of AI significantly (Chen, 2019; Damerji, 2019; and Gursoy et al, 2019).

This study suggests that the negative relationship between effort expectancy and acceptance of AI technology is weak. Even though the amount of effort needed will influence their AI acceptance, this factor is not a significant determinant of their willingness to accept AI. Previous research convinced that the chance of AI acceptance would be greater if AI is easy to use and when less effort is required to use it (Chen, 2019; Damerji, 2019; Gursoy et al, 2019; and Oliveira et al, 2014). If the users think that AI technology would need a large amount of effort, AI may not be accepted and adopted. AI technology can lead to barriers to effective communication with its users. To understand AI's complex characteristics, the amount of effort needed may increase, and AI needs more attention.

Additionally, the hypothesis testing result showed a non-significant negative relationship between social influence and AI acceptance. This result indicated that the increase in social influence could decrease the acceptance of AI technology. This means that the employees are less likely to be influenced by other individuals. Wong (2018) also had found that social influence is not positively associated with the acceptance of new technologies. The pressure from society to use AI is not a contributing factor to the acceptance of AI technology. Workplaces may have a culture of empowering their employees to be competent and free-thinking. Therefore, employees are also less likely to be influenced by other individuals.

This study also found a non-significant positive relationship between the facilitating conditions and the acceptance of AI. The prior studies also found that facilitating conditions is a factor in AI acceptance (Chong et al, 2009; Nah et al, 2001; Müller & Jugdev, 2012; and Teo et al, 2006). Organizational and government support, such as training and resource allocation, could influence AI acceptance. This study indicated that the increase in facilitating conditions could increase the acceptance of AI technology. However, the significance level was greater than 0.05. Hence, the result did not support Hypothesis 4.

As expected, the results showed a significant positive relationship between attitude and the acceptance of AI. A positive attitude, such as the desire to use or interact with AI and learn new advanced technology, could improve the acceptance of AI. Previous research also induced that potential users will accept AI if they have a positive attitude toward AI usage (Wong, 2018; Omar et al, 2017).

The results also showed a significant positive relationship between skill and technical capabilities and the acceptance of AI. This finding is also consistent with prior studies where skill and technical capability are key factors that affect the acceptance of AI and contribute to the effective integration of new technology like AI (Chen, 2019; Garrison, Wakefield, & Kim, 2015). IT development strategies will effectively integrate AI technology into business or service activities with sufficient skills and technical knowledge. Otherwise, the lack of skills and technical ability will influence potential users to

reject AI, which becomes an obstacle to the organization's successful adoption. Therefore, future accounting and finance professionals are expected to have diverse skills and learn continuously.

## Conclusion

In this study, all primary and specific research objectives on the acceptance of AI in Malaysia's Shared Services were met. The results obtained seemed to indicate that the effort expectancy, social influence and facilitating conditions are not the crucial factors in predicting the acceptance of AI technology. Therefore, organizations should focus on the three factors: performance expectancy, attitude, and skill and technical capability to ensure future technology like AI can be embedded smoothly within organizations. Individuals should also overcome the anxiety or fear towards AI and view the capabilities of AI positively. AI technology has the potential to change society and will have a significant impact on life. This study may provide insights into the shared service organizations in Malaysia on what to focus on when deciding to adopt AI. Besides, it could provide some ideas and evidence for future studies on AI acceptance.

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# Good University Governance and the Whistleblowing System: The Role of the Internal Audit

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## Abstract

*The internal audit function is a crucial aspect in the implementation of good university governance. The international paradigm of the role of the internal audit in corporations is shifting. The internal audit does not only act as a watchdog but also as a consultant and catalyst. One aspect that becomes the task of internal auditors is to conduct whistleblowing in the event of fraud. This research aimed to identify the role of internal auditors of universities in Indonesia as whistleblowers for fraud as seen from the various regulations that govern and the audit charter established. The research used descriptive analysis by taking the ten best state universities in Indonesia in 2018. The results of this study indicated that the position and role of internal auditors in Indonesian higher education are in accordance with international standards listed in the audit charter of each university. However, the role and function of internal auditors as whistleblowers for fraud have not been implemented optimally. This is because the supervision and inspection processes conducted by internal auditors have not led to the five internal control pillars recommended by the COSO. The audit carried out so far is still a compliance audit and is still based on financial management risks so it still does not fully lead to fraud prevention. Other factors such as the failure of internal controls and the absence of a supervisory body make recommendations and suggestions from internal auditors not followed up by the management.*

**Keywords:** Internal auditor; Higher education; International Professional Practices Framework (IPPF)

## Introduction

Higher Education has a strategic role in the achievement of the objectives of education. Therefore, the role of universities as centres of education by developing and transforming science, knowledge, technology, and the arts through Tri Dharma of Higher Education (education, research, and community service) requires good governance in order to improve the quality and the value of higher education. One of the concepts currently being a concern in Higher Education is the concept of Good University Governance (GUG). This concept is actually a derivative of the concept of a more general governance which is often called good governance. Can higher education be categorized as a public or private goods? This is a very pressing matter related to how the management of Higher Education should be.

Demand for corporate governance can no longer be charged to the institution itself. Higher education should embrace the concept of governance. This is in line with organizations in the other industries and universities are facing an increasing need for accountability (Chamberlain et al., 1993). For example, students need a strong institutional commitment to top-quality learning; politicians and watchdog agencies want the conviction that academic institutions contribute to the definition of public goods (economic development) in accordance with the law and procedural rules; donor agencies ask for proof that their investments and contributions have been well used in relation to the agenda and priorities of the organization; and alumni want confidence that the reputation of the alma mater to be increased so that their value continues to grow (Kearns, 1998). Based on the terms of the management of higher education Indonesia must give attention to balance against the process and institutional governance mechanisms (Balderston, 1974).

Internal audits have become one of the keys to encourage good governance in organizations (Kadir, 2000). Therefore, the management of institutions of higher learning should realize the importance of the internal audit function in all its institutions.

Nowadays, the development of the internal audit has proceeded very quickly along with the changing times in the era of globalization. It has also occurred in Indonesia, where its development has been emphasised and internal audit mechanisms have been undergoing a shift. In the past the role of internal auditors was as a "watchdog" in an organization or company, whereas, in the present and future the

internal audit process becomes the "internal consultant" that gives input in the form of ideas and thoughts in order to bring improvements in the system and runs and acts as a "catalyst" that provides services to the management through advice that is constructive and can be implemented for the progress of the organization. There is some mention of the internal auditor's terms in the Higher Education, such as Internal Oversight Unit (SPI), Internal Quality Audit (AMI), and units of the Internal Auditors (SAI). While in college overseas such as in the United States it is called Internal Auditing and Compliance.

In addition, an internal audit can be a quality assurance system. For example, the internal auditor at the University of Gadjah Mada in the execution of his duty shall, in cooperation with the quality assurance Office provides services in the form of internal quality audits. There are some matters that still show a weak implementation of the internal audit in higher education in Indonesia which are among others: the internal auditor position in the organizational structure of several universities in Indonesia is still under the command of the Vice-Chancellor of academics and not under the Rector or the University Senate. Second, the role of the Audit Charter is contained in the Standard Operating Procedure (SOP) of the internal auditors in the respective universities in Indonesia that is far from effective and efficient in terms of its implementation. Third, is the existence of fraud involving the executive management in higher education in Indonesia, as an example, the former Rector of a University was caught by the corruption eradication Commission (KPK) for corruption in the construction of the hospital Airlangga University education.

This study aimed to compare the position and the role of internal auditors universities in Indonesia are good University Incorporated Law (PTBH), University of public service Bodies (PT PK-BLU) and University as unit of work (PT-Satker) seen from the side position of the internal auditor on the structure (SOTK) colleges as compared to International Standards for The Professional Practice of Internal Auditing (IPPF) as an international audit standard. In addition, this research aimed at identifying the functions and the role of internal auditors in the face of potential fraud activities in Indonesian Universities.

## **Theoretical Framework**

### *Internal Audit and Good University Governance*

The internal audit, according to The Institute of Internal Auditors (IIA 2016), is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined, approach to evaluate and improve the effectiveness of risk management, control and governance process". It can be concluded that the internal audit is basically the activities of guarantors (assurance) and consulting (consulting) which are independent and objective. This is in tune with the idea of an internal audit by the Internal Audit Profession Standards (SPAI 2004). The internal audit assurance and consulting activities are independent and objective, designed to deliver added value and improve the activities of an organization. The internal audit helps the organization to achieve its objectives, through a systematic and orderly approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Good corporate governance in higher education is necessary to encourage the creation of efficiency, transparency and consistency with legislation. The implementation of good corporate governance needs to be supported by three interrelated pillars, namely the State and its apparatus as regulators, the College as market participants and the community as stakeholders and users of the universities' products/services. There are four principles of good corporate governance according to the Corporate Governance (KNKCG) 2001, namely transparency, independence, accountability, responsibility and equality and fairness. These principles are required in Indonesian Universities to achieve continuous good performance by remaining attentive to the stakeholders.

### *Three Lines of Defence*

The Three Lines of Defence Model introduced three lines of defence for an organization in order to achieve good corporate governance. First, control of management and internal controls. Second, risk control and compliance functions are formed by the management. Third, is the independence of the internal audit. Based on these three, it can be seen that an internal auditor provides confidence in the effectiveness of governance, risk management and internal controls (IIA, 2013).

## *Fraud Triangle*

According to Cressey (1950) fraud occurs because of three factors i.e., pressure, opportunity and rationalization. If one is not met then the fraud activity will not occur. Pressure can come from internal/personal by the urge for economic needs, externally in the form of pressure from the leadership in achieving a specific goal and work stress (Lister, 2007). Specifically, 95% of the total cases of fraud are influenced by financial pressures (W. S. Albrecht et al., 2006). Based on Hooper & Pornelli (2010), pressure can be a positive or negative force. If the goal can be reached then the pressure gives creativity, efficiency and competitive. These opportunities are explained by the Rae and Subramaniam (2008) as the ability to realize the weakness of the system and use it to commit fraud. Indication refers to rationalization to mitigate fraud (Tuanakotta, 2016). The perpetrator usually sets a moral justification before committing to cheat (Abdullahi & Mansor, 2015). Some rationalization informed by the respondent were that "that's just not done by us", "everyone has to do it", and "this will help others and for good purpose." This is a general rationalization used by perpetrators (Albrecht et al., 2011).

## **Research Approach**

This research used a qualitative descriptive approach. The data was collected from the top ten universities Indonesia in the year 2018. This method was done by comparing between the internal auditor's role and position in university as stated in the Audit Charter by the IPPF as the standard international audit. After bench-marking, do the results over the synthesis and identification of the function and the role of internal auditor in the face of potential fraud activity in Indonesian Universities.

## **Results and Discussion**

### *Comparison of the Position and Role of the Internal Auditor of Higher Education*

Internal audits are carried out in a diverse legal and cultural environment that vary in purpose, size, complexity, and structure; and by people inside or outside the organization. Although differences can affect internal audit practices in each environment, in accordance with the IPPF, it is very important in fulfilling the responsibilities of internal auditors and internal audit activities. The objectives of these standards include: 1) guiding compliance with mandatory elements in the International Professional Practice Framework; 2) providing a framework for carrying out and promoting various internal audit services which are value added; 3) establishing the basis for internal audit performance evaluation; and 4) encouraging the process and the organization's operations to become better. Standards that are principles-based are required to have requirements consisting of: a statement of core requirements for internal audit professional practice and for evaluating the effectiveness of performance that applies internationally at the organizational and individual level and interpretation of clarifying the terms or concepts in the standard.

The IPPF consists of two main categories: performance attributes and standards. The standard attribute handles the attributes of organizations and individuals who carry out internal audits. The performance standards describe the nature of internal audits and provide a quality criterion where the performance of these services can be measured. Both of these categories apply to all internal audit services. in the standard attributes include: clear objectives, authorities and responsibilities stated in the internal audit charter; independence and objectivity; professional expertise and care; and quality assurance and improvement programs. Performance standards consist of: management of internal audit activities; nature of work; engagement planning; implementation of engagement; communication results; monitoring progress; and communicating risk acceptance.

The results of observations and review of the audit charter of several universities in Indonesia such as the Universitas Gadjah Mada (UGM), Universitas Brawijaya (UB) and State Islamic University Sunan Ampel (UIN Sunan Ampel) show that most of the standards contained in the IPPF have been adopted. The audit charter has included standard attributes in the form of vision, mission, internal audit objectives and expertise and due professional care. However, there are universities that still have not explicitly included independence and objectivity in their audit charter, such as UIN Sunan Ampel even though all performance standards are listed in the college audit charter. This showed that universities in Indonesia are trying to carry out the internal audit process that starts from the management of internal audit activities to communicate audit risks.

In addition, internal auditors called SPI based on Minister of Education Regulation No. 47/2011 concerning Internal Audit Unit functions conduct supervision in the Ministry of National Education environment and its duties are: 1) preparation of supervision programs; 2) supervision of policies and programs; 3) supervision of management of personnel, finance and state property; 4) monitoring and coordinating the follow-up of internal and external audit results; 5) financial report assistance and review; 6) giving advice and recommendations; 7) preparation of the supervision report; and 8) implementation of evaluation of supervision results.

In general, the role of internal auditors is in accordance with the audit charter of each university which refers to the IPPF and the Minister of National Education Regulation No. 47/2011 even though there are still some that have not been maximized. The internal audit of the college has not yet reached the assurance level or the creditor in the monitoring process carried out even though this is the main role and function of the internal audit. Supervision is generally carried out by internal auditors of higher education, namely supervision in the financial sector (financial audit), supervision of state property (audit of state property management), assistance and review of university semester and annual financial reports, monitoring and coordination of follow-up results of Inspector General's examination and provide recommendations and advice to the leadership, in this case, the chancellor, if things go wrong or is not in accordance with the regulations.

Some matters that have not been done by the university's internal auditors are the preparation of supervision programs, supervision of policies and programs, supervision in the field of staffing and the implementation of evaluation of the results of supervision carried out by the internal auditor. The preparation of the supervision and supervision of policies and programs has not been fully implemented because the university's internal auditors are still looking for root causes in financial management while looking for patterns and mapping appropriate controls. Supervision of staffing has not been carried out by internal auditors because they are still focused on monitoring financial reports and overseeing state property.

The last thing that has not been done optimally by the university's internal auditors is the implementation and evaluation of the results of supervision carried out by the internal auditor. Internal auditors are still only reporting and recommending the results of supervision carried out to the chancellor because the chancellor is the direct supervisor of the university's internal auditors. Reports and recommendations given by internal auditors are under the authority and prerogative of the chancellor to implement because the chancellor is the highest position in the organization and governance (SOTK), especially at PT PK-BLU and PT Satker. Therefore, a supervisory body is needed to oversee the rector's policy and evaluate the reports and recommendations provided by internal auditors. The function of the supervisory institution is an alternative channel if the reports and recommendations provided by the university's internal auditors are not followed up by the chancellor. This has been put into effect at PTBH by establishing a Board of Trustees that represented elements of the government and the community with the task of carrying out supervision and general control over the management of universities.

#### *Role and Function of Internal Auditors Facing Potential Fraud Activities at Indonesian Universities*

Internal auditors have a very important role related to the prevention and detection of fraud activities. The role of internal auditors as management partners in supervising, monitoring and analysing management activities and as a place of consultation plays a key role in the prevention and detection of fraud activities. Amrizal (2004) explains that internal auditors must understand the symptoms or red flags in conducting analysis and evaluation in order to detect possible fraud and understand the structure of internal controls in order to prevent fraud. Wright (2003) argues that effective internal control affects the tendency of accounting fraud to diminish. Smith et al. (1997); Beasley (1996); Beasley et al. (2000); Reinstein & Bayou, (1998); and Abbott et al. (2002) also stated that effective internal control reduces the tendency of accounting fraud. According to Dewi (2016) the symptoms of fraud that have the potential to arise in the college environment is due the failure of internal controls.

The supervision and audit process carried out by the internal auditors in higher education have not led to the five pillars of internal control recommended by the COSO, namely the control environment, risk assessment, activity control, information and communication and monitoring and evaluation of potentially fraudulent activities. The audits carried out so far are still compliance audits and are still risk-based financial management so that they still do not fully lead to fraud prevention. In addition, t

internal college auditors still comprise teaching staff who are given additional duties to become members of the internal audit team. This condition affects the conflict of roles of members of the internal audit team. This has an impact on the supervisory function carried out by the university's internal auditors.

## Conclusion

The conclusions of this study include: 1) the position and role of internal auditors is in accordance with the IPPF listed in the audit charter of each college; 2) the supervision and audit process carried out by the internal auditors of higher education has not led to the five pillars of internal control recommended by the COSO; 3) the role and function of the university's internal auditors in preventing fraud activities have not reached the level of prevention of fraud because the university environment has not yet supported it and 4) the occurrence of role conflicts as members of the university's internal audit team and being a teaching staff. Suggestions for this research, namely: 1) supervision and audits conducted by internal university auditors must be directed to the five pillars of internal control recommended by the COSO; 2) creating a management environment and management awareness of the roles and functions of the university's internal auditors and 3) conducting recruitment of members of the university's internal auditors from functional auditors to avoid role conflict.

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# Exploring the Correlation Between Financial Risk, Operational Risk, Strategic Risk, and the Performance of Small and Medium-Sized Enterprises (SMEs) in the Klang Valley, Malaysia

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## Abstract

*All business is not without risks. Challenges in the business environment and the dynamic preferences of consumers demand business organizations to monitor and manage their risks proactively. Early detection of risks may enable business organizations to reduce threats and thus minimize unfavourable consequences. This study was conducted to explore the correlation between financial, operation, and strategic risks and SME performance. 100 respondents from 10 SMEs in Selangor were selected based on the purposive sampling technique. Data was collected via a questionnaire, and was then analysed through descriptive, and correlation analyses. Correlation analysis showed that only financial and operational risks management practices had a significant positive correlation with performance. In addition, strategic risk management had a negative correlation with performance albeit not significant.*

**Keywords:** Financial risk; Operational risk; Strategic risk; SMEs

## Introduction

In Malaysia, Small and Medium Enterprises (SMEs) play an important role in driving growth, employment and income. However, mistakes in assessing and not knowing about risks will lead to the destruction of the business and ultimately bankruptcy if not addressed from the initial stage. According to Gwangwara et al. (2014), there are some companies that do not use the correct method in the operating their business because they cannot afford to pay salaries or wages to their employees. Furthermore, Verbano and Venturini (2013) claim that the inability to manage risks or inadequate initiatives to reduce risks is said to be correlated to company performance. As such, lack of performance in SMEs in Malaysia may be explained through their initiatives in risk management. This research explored the correlation between risk management and SME performance in the manufacturing industry in Klang Valley, Malaysia. Specifically, the research questions for this study were: What is the correlation between financial risk, operational risk and strategic risk in SME performance?

According to Akinruwa, Awolusi and Ibojo (2013), the performance of a firm can be influenced by various factors including internal or external environment factors. Although external environment factors greatly influence the failure or success of a business, many researchers are of the view that internal environment factors are more important and a key factor in determining firm performance. Therefore, this study focussed on analysing the influence of internal risks on SME performance. The following business risks were studied: *Financial risk* – losing money in a business venture or investment; *Operational risk* - arises from day-to-day business operations; and *Strategic risk* – influences an organization's ability to execute its business strategy and achieve company goals (Jamaludin & Ahmad, 2013).

To deal with business risk and uncertainty, effective risk management is one of the solutions. Firms can achieve their objectives and ultimately increase the value of stakeholders when risks are managed effectively. Effective risk management has been widely accepted as a core to the success of a firm regardless of size or industry. Cases of firm failure, corporate scandals and fraud behavior are among the other reasons for firms to run risk management programs. Based on the literature review a research framework was developed and is depicted in Figure 1. The independent variables were financial risk, operational risk and strategic risk. Meanwhile, the dependent variable was business performance.

## Methodology

This research investigated the significance of the relationship between risk management and SMEs performance in the manufacturing industry in the Klang Valley, Malaysia. The research questions for this study were: What is the impact of financial risk, operational risk and strategic risk towards SME performance? The results were obtained through relationship measurement based on the data collected

through a survey using a questionnaire. Overall, 100 respondents were involved in the data collection process. The questionnaire was divided into three sections. Section A contained 7 items related to demographic or background information of the respondents namely gender, age, job position, work experience, type of company, year of formation and number of employees. Section B contained 30 items related to risk management practices ranging from financial risk, operational risk, and strategic risks. In this section, the questions were guided by a five-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree). Respondents were required to answer questions based on their practice honestly where there were no right and wrong answers. Section C contained questions related to firm performance. It consisted of 15 items that were also guided by a 5-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree). The data obtained from the questionnaire were analysed using the Statistical Package for the Social Sciences (SPSS) version 25.0. This study employed a descriptive analysis and correlation analysis. The mean score was used in determining the level of financial risk, operational risk and strategic risk management. The correlation coefficient value was used to determine if there are any relationship between financial risk, operational risk, strategic risk and performance of SMEs.

## Results

**Descriptive Analysis: Respondents' Profile** – In summary, 57% were female, 51% aged between 26 and 30 years old, 70% were first-line managers (i.e., team leaders and supervisors) in their organizations, 71% had working experience between 6 and 11 years, and 70% were working in manufacturing companies. **Risk Management Practice in SME and Firm Performance** – The results of the analysis showed that the SMEs practised risk management at a moderate level. As shown in Table 1 operational risk had a highest mean value at 3.63 (SD:0.463), followed by strategic risk with a mean value of 3.10 (SD:0.259), and financial risk with a mean value of 3.08 (SD:0.361), and firm performance with a mean value of 3.14 (SD:0.246).

Table 1. Risk Management Practice and Firm Performance

	Mean	Standard Deviation	Level
Financial risk	3.08	0.361	Moderate
Operational risk	3.63	0.463	Moderate
Strategic risk	3.10	0.259	Moderate
Firm performance	3.14	0.246	Moderate

Table 2 illustrates the correlation between financial risk, operational risk and strategic risk with firm performance. The Pearson correlation analysis showed that financial risk and firm performance had a weak correlation albeit significant ( $r = 0.242$ ,  $p = 0.015$ ). Meanwhile, the correlation between strategic risk and firm performance was also weak and in a negative direction ( $r = -0.180$ ). However, the relationship may not be significant as the p-value was 0.074. As for operational risk, there was a weak correlation with firm performance ( $r = 0.279$ ;  $p = 0.023$ ).

Table 2. Correlation between Risk Management and Firm Performance

	Firm Performance	Significant $p < 0.05$	Relationship Level
Financial Risk	0.242**	0.015	Low
Strategic Risk	- 0.180	0.074	Negative
Operational Risk	0.279**	0.023	Low

## Discussion

The findings showed that strategic risk management practice did not have a relation with SMEs firm performance. The reason may be because the majority of the respondents (i.e., 70%) were first-line managers. They may not have accurate information regarding strategic risks, which deal with long-term organizational direction, and is concerned with various organizational factors and choices at the strategic level (Allan & Beer, 2006). As for the other two dimensions of risk management, both financial



and operation risk management practices were found to have a correlation with firm performance. Even though the impact of these two dimensions of risk management cannot be determined using existing analyses, at least the correlation findings could become a beginning for future research direction. At this moment, it can be deduced that firms that manage their financial risk such as matters related to investment and spending, may be able to minimize loss. Similarly, firms that manage their operational risk, flaws such as failed processes and system that could delay business operations can be avoided or reduced.

## Conclusion

The risk that a firm takes on in pursuing a particular strategy should align with stakeholders' expectations and the risk appetite. Hence, managing risks is an issue deserving time and attention by the executive management and the board of directors, adequately supported by people involved in risk management within the firm.

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# Digital Transformation and Digital Maturity Level for Halal Supply Chain Governance at JAKIM

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## Abstract

*Digitalisation has significantly influenced society and the business ecosystem, particularly the interactions between customers and businesses, adherence to new business regulations, and exploiting digital technology opportunities (Gimpel et al, 2018). The expeditious permeation of digital usage into society around the world has made digital transformation a priority for the sustainability of most organizations. According to Trujillo and Perez (2021), digital transformation is both a catalyst for and a precedent to sustainability. This shows why organisations must enhance their digital capabilities and consider the economic, environmental, and social consequences of their actions in order to survive the digital revolution, meet market expectations, and develop smart, inclusive societies (Trujillo & Gonzalez, 2021). Previous studies pertinent to the framework that can assist digital transformation and digital maturity of an organization are still scarce as the majority of frameworks view digital transformation in isolation from digital maturity. More research is strongly recommended in this field. This study examined the governance of Islamic Religious Institutions in Malaysia, specifically the Department of Islamic Development or Jabatan Kemajuan Islam Malaysia known as JAKIM, in terms of accountability and transparency.*

**Keywords:** Digital transformation; Digital maturity; Halal supply chain governance

## Introduction

Digital transformation is critical for all organizations, for-profit or not-for-profit, and investment in technology is not equal to digital transformation. Mixed macroeconomic signals and uncertainties about the future exacerbate the need for digital transformation and may help firms build the resilience they need to survive well into the future (Gurumurthy et al., 2020). The majority of prior research indicates that many company leaders are unfamiliar with the concept of digital transformation. Warner & Wäger (2018), established that leaders use the term "digital transformation" inconsistently within and across industries to refer to a variety of conceptualising and organising activities, eroding the concept's credibility and causing widespread uncertainty in both the research and academic communities (Gong & Ribiere, 2020). Nonetheless, every firm must embrace the digital transformation wave. Digital transformation impacts multiple sectors of an organisation concurrently, and developing a transformation strategy entails a large number of stakeholders, making it difficult to design a workable plan for digital transformation (Bergaus et al., 2016). Organizations may use data to assess their performance, determine where they should focus their efforts, and identify areas that could benefit from simplification as a result of digital transformation. By automating formerly manual procedures, digital transformation can also free up staff time to focus on higher-value tasks.

While digital transformation is an important topic from both a theoretical and practical standpoint, businesses frequently struggle to attain digital maturity (Weritz et al., 2020). Digitalization has a massive enterprise-wide influence and technology only determines transformation to a certain extent. Its ultimate success is dependent on the reengineering of numerous important business activities, processes, and models, each of which contributes to the advancement of digital maturity. The ability of an organization to change in order to compete effectively in an increasingly digital world is referred to as digital maturity. As a result, digital maturity is a never-ending process of adjusting to the continuously changing digital surroundings (Kane et al., 2017). It appears that constructing maturity stages inductively for a predetermined set of criteria leads to a better understanding of how firms approach digital transformation (Bergaus et al., 2016). According to the Deloitte LLP team, the impact of digital maturity on financial performance stems from higher efficiency, revenue growth, product/service quality, customer satisfaction, and employee engagement, as well as a greater emphasis on growth and innovation (Gurumurthy et al., 2020).

The emergence of digital technology has had dramatic consequences for traditional corporate operations over the years. Some firms are unable to function as they once did. The success

rate of such digital transitions is quite low, due to constant technical improvements, and the phenomenon is frequently sophisticated, ambiguous, demanding, and non-routine administrative responsibilities (Mahmood et al., 2019). Organizations must stay up with evolving technology and use it to rebuild their operations in the most inventive ways possible. As businesses embark on their digital transformation path, they may face a number of challenges due to a variety of unforeseeable factors. Uncertainty is the new normal, and there is no one-size-fits-all approach to building a digital strategy since businesses are changing quicker than they have ever changed. The challenges are not merely operational or technological; cultural change is also required to reap the benefits of digitization (Nahrkhalaji et al., 2018).

The concept of corporate governance ensures that the company's owners have an influence on its management. The majority of features of corporate governance are governed by company law (Almquist et al., 2013). The significant challenge for corporate governance policymakers, according to Brennan and Solomon (2008), appears to be the need for new codes and principles of best practices in corporate governance and to adopt a more stakeholder-oriented approach rather than a sole agency theory perspective. Stakeholder accountability and social responsibility are now widely identified as vital elements for corporate success as well as critical factors for improving social welfare. Transparency is a necessary component of eradicating corruption. According to Er (2008), Muslim countries did worse in the Transparency International Corruption Perception Index than non-Muslim countries. Er (2008) also emphasises that instead of holding management accountable for failing to perform responsibilities effectively, encouraging employees to report wrongdoing, establishing free online fraud hotlines, implementing corporate ethics programmes as control systems, requiring all businesses to conduct audits, and adopting measures to raise public awareness about business corruption is among the measures that may greatly alleviate fraudulent activity.

Though the majority of frameworks are designed to focus exclusively on digital transformation and maturity in silos, they can be applied to Islamic institutions. The application of digital transformation in Islamic institutions requires some modifications to meet the needs of Islamic institutions. The reason for the modification is because of the dual objectives which are, generating a positive social impact and gaining financial-economic benefits which are critical for Malaysia's economy.

## Issues

Multiple alternate definitions of integration were offered and clarified by Thomas Gulledge in his study; To begin, integration is defined as the processing of all relevant data for a specific bounded and closed set of business operations in the same software application. Aside from this, Thomas Gulledge also addressed integration of data between databases, data warehouses, corporate applications, and application servers as well as point-to-point and B2B integration (Thomas Gulledge, 2006). Integration can help an organization scale for future expansion while also increasing efficiency and reducing lost time due to manual processes and IT resources. It is suggested, for example, that the integration of acquired or merging organizations is a crucial determinant of mergers and acquisitions' success or failure. The achievement of a conceptual framework is one step towards the objective of integrating diverse merger and acquisition knowledge (Norbert Steigenberger, 2016). It's vital to fill the gap in past research on the relationship between digital transformation frameworks and digital maturity levels. Though most frameworks are constructed to focus primarily on digital transformation and maturity in isolation, institutions should embrace the integration of digital transformation and maturity by having a framework to facilitate them through the dynamic programming digital transformation process.

The terms "digital transformation" and "digital maturity" are synonymous, and both have an effect on business operations and efficiency. Digital transformation is an iterative process that necessitates the collaboration of a diverse ecosystem of capabilities. The digital maturity model can be applied at any point during the transformation process to assist in identifying gaps, prioritising areas for focus, and determining where to begin. According to Alexander Rossman's research published in 2018, digital maturity encompasses eight dimensions: strategy, leadership,

business model, operating model, people, governance, and technology. The findings advance the theoretical knowledge of digital maturity as a construct and the various elements that influence organisations' digital transformation initiatives. This research establishes a

conceptual framework for digital maturity and defines a measurable assessment mechanism. (Alexander Rossman (2018). The third annual study of digital business by MIT Sloan Management Review and Deloitte uncovers five important practises of companies that are maturing into more mature digital enterprises. By instituting fundamental changes in how they structure and develop their workforces, foster workplace innovation, and foster digitally oriented cultures and experiences, businesses' strategic planning horizons are typically longer than those of less digitally mature organisations. Scaling up tiny digital experiments into enterprise-wide initiatives with a positive impact on the business. Attracting talent and securing individuals with the vision required to manage a digital strategy, as well as a willingness to commit resources to accomplishing this objective ((Kane et al., 2017).

However, the framework that the Department of Islamic Development Malaysia (JAKIM) adopts for its digital transformation is still under study. Previous research on the digital transformation framework for Islamic institutions has been insufficient, as the majority of frameworks view digital transformation in isolation from digital maturity. As a result, it is critical to address the dearth of previous literature examining the relationship between digital transformation frameworks and digital maturity levels.

### **Conceptual Framework**

The COVID-19 Pandemic has removed any reservations that any organization had regarding the need for digital transformation. Digital transformation has rapidly become a matter of survival for many organizations including Islamic institutions in Malaysia, for example, JAKIM. The significance of technology in the modern and combative business climate cannot be denied. A well governed digital transformation maturity framework must satisfy several stakeholders within JAKIM and be adaptable enough to accommodate a range of different types of activities while retaining enough rigour to guarantee the strategic alignment and efficiency of a non-profit organizations.

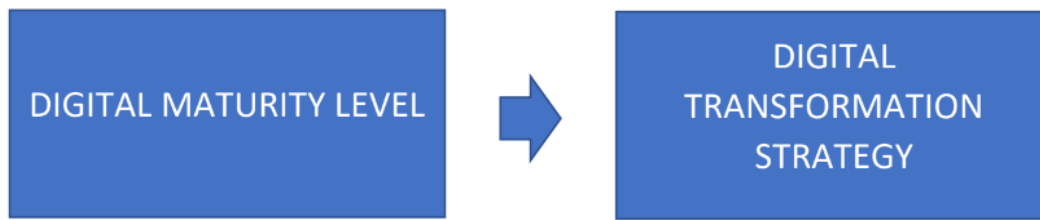
The framework for digital transformation maturity serves as a support structure for management of Islamic Institutions. Religious institutions should scrutinize their existing business model because the models are susceptible to becoming obsolete in this age of digital transformation. The battle to thrive in the Fourth Industrial Revolution is not going to be easy but it is possible. The fact that a digital transformation fails is due to a lack of discipline in defining and executing the right steps for a digital transformation to take off and stay ahead should be attended to (Saldanha, 2019).

A fundamental framework for digital transformation maturity has been proposed for Islamic institutions' by adapting:

- i. 5 stages of Digital Transformation
- ii. Digital Maturity models by Google and Boston Consulting Group
- iii. Capgemini Digital Mastery Framework
- iv. McKinsey 6 elements of a successful Digital Transformation
- v. MIT Digital Transformation Framework
- vi. McKinsey 7S Framework
- vii. Transparency cycle

This includes redesigning the employee experience and talent journey, infusing the organization with a purpose and sustainability, transforming into a data-driven enterprise and redefining the customer experience, as well as scaling new business and engagement models. To recapitulate, in order to successfully navigate the digital journey, firms must galvanize their leadership, culture, talent, technologies, and processes.

It is critical for organizations to determine their level of maturity for digital transformation before developing their digital transformation plan. In order to determine an organization's present level of maturity, indicators for digital maturity must be established. Depending on their level of maturity, an organisation can continue to explore its digital transformation strategy by utilising the provided framework.



## Methodology

### Research Design

This study followed an approach described by Yin (2003): a single case study. According to Scapens (2006), the best way of understanding practices in any organization is not merely to explicate the various practices that have been adopted but to try to make sense of the adopted practices. As the main focus of this research was to investigate the reasons for efficiencies and inefficiencies of the digital transformation strategy at JAKIM and to propose a digital transformation and maturity framework for effective governance of the Islamic institutions, a qualitative case study was the most appropriate. JAKIM is responsible for the overall management of Islamic affairs in Malaysia. It is responsible for Halal certification, which includes developing the Halal logo, monitoring and enforcing Halal standards and shariah principles.

This study was conducted in two stages. The first stage was a pilot inquiry whilst the next was the in-depth stage. The first stage involved interviews as a technique to collect data. Interviews were conducted with the Chief Executive Officer and all the Heads of Departments in JAKIM. The purposes of these initial interviews were threefold. First was to get a better understanding of the current digital transformation strategies (E- Halal system management) situation in JAKIM. Second, to investigate the current level of digital maturity at JAKIM. Third, was to investigate the reasons for efficiencies and inefficiencies of the digital transformation strategy at JAKIM. The second stage of the study was more extensive and represented the major part of this research. It evaluated the implementation of the proposed Digital Transformation Maturity Framework. This was done in order to understand the effective governance of JAKIM in terms of accountability and transparency. Inputs from the first stage were also used to explain the phenomena.

### Conclusion

This study collected data through four methods i.e., content analysis, interviews, non-participatory observations and document analysis. According to Yin (2003), all sources of evidence have both strengths and weaknesses, so it is essential to have more than one source of evidence. Using more than one source of evidence (triangulation) ensures a higher quality case study and provides complementary evidence.

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# The Challenges Faced in Money Mule Investigation by a Malaysian Enforcement Agency

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## Abstract

*The peril of gallivanting money mules in the society whose service is primarily to cater for the needs of criminals is challenging for the police department as a law enforcement agency. This article discusses the challenges faced by them in money mule investigation. An interview with the Assistant Superintendent Police (ASP) Rahmat Fitri Abdullah, Head of the Commercial Crime Investigation Department at the Sentul District Police Headquarters was conducted to gather his insights, and also for the researchers to understand the issue. The major challenges faced in criminal investigations include lack of cooperation from telcos, delayed response from banks when requested to provide crucial information, wrong public perceptions on enforcement agency's aggressiveness to fight money mules, lengthy investigation procedures, limited resources and a lackadaisical attitude towards the money mule threat. Changes that the enforcement agency is keen to see are include a more proactive telco regulator or bank's quick responses to assistance requested by the enforcement agency and steeper involvement from the media to build public awareness. The outcome from the interview provides information on contemporary money mule issues from the lens of an enforcement agency which insofar has been remotely highlighted or clarified.*

**Keywords:** Money Mule, Police Department, Law Enforcement Agency.

## Introduction

The intricacies of the money mule phenomenon are incontrovertibly quite fascinating to study. The complexities range from recruitment, money mule network, operations and investigations. The money mule has gained traction for its significant role in laundering illegal funds from an array of criminal activities happening across jurisdictions, such as fraud, scams and cybercrime. The problem contributed by money mules has regressed the trust financial systems owe to the public, and also places a heavy burden on enforcement agencies especially the police department in asserting its authority to curb this crime. If left undeterred, money mules will become a major threat to the well-being of society in which crime will continue to flourish.

A money mule is defined as an individual who allows his/her personal account to be abused by criminals for layering of ill-gotten proceeds (Federal Bureau Investigation, 2021). The mules subsist on *hors d'oeuvres* or a small cut which is understood to be a service fee for lending their account, whilst the criminals are the true profiteers who enjoy the large portion of the stolen funds. The general understanding is that a money mule must be held accountable for all activities that happen in their account. Enforcement agencies such as the Royal Malaysia Police is beleaguered with challenges on the money mule issue, including investigations and awareness campaigns.

Several previous studies have profoundly highlighted the challenges that beset investigation in the respective law enforcement fields, such as bad record-keeping in hawala networks due to strong trust held by the operators (Passas, 2004), truncated access to the source of child pornography and search for the offenders (Wells, Finkelhor, Wolak & Mitchell, 2007), getting the latest technology to outsmart the stealth tactics by crypto launderers (Tziakouris, 2018), poor manpower allocation, skills and latest technology in wildlife conservation law enforcement (Ariffin, 2015), low rate of reporting and diminishing proactive investigative strategies hamper the human trafficking investigation process (Farrell, Owens & McDevitt, 2014; Farrell & Reichert, 2017). Likewise, it is inevitably crucial to understand the difficulties faced by law enforcement agencies in money mule investigations. Therefore, this article elucidates the challenges faced by an enforcement agency in money mule investigation.

## Methodology

The authority given to the police department covers an array of interventions such as arrest, raid, account investigation, obtaining an order to freeze a suspected mule account and prosecute the money

mule offenders. Under Penal code 424 and AMLATFPUAA 2001, an enforcement officer from the police department is allowed to partake exercises or actions perceived to be helpful in the money mule investigation. The investigation on money mule cases in the police department is centralized under the Commercial Crime Investigation Department (CCID). The research methodology consisted of a semi-structured interview with the Assistant Superintendent of Police (ASP) Rahmat Fitri Abdullah, Head of the Commercial Crime Investigation Department for the Sentul District Police Headquarters who manages investigations in the East Kuala Lumpur area and helps in promoting money mule awareness among the public. The face-to-face interview was conducted at the CCID's main office in the Sentul District Police Headquarters and lasted for 2 hours. The study engaged a semi-structured interview in gathering responses from the interviewee on issues brought up to address the themes of the study.

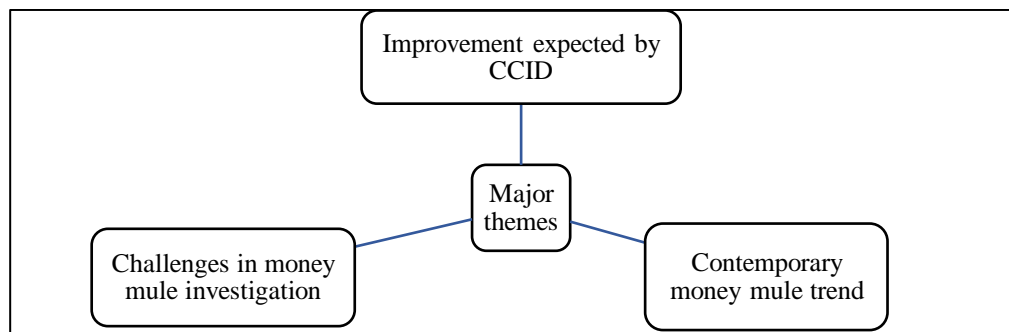


Figure 1: The main themes of the interview.

The general inductive approach was used in the analysis of results for this study. The general inductive analysis offers advantages in compacting large chunks of information into a brief summary and establishes comprehensible links between the research aims and findings (Thomas, 2006). Then an inductive analysis is also practical in model and theory development based on the underlying structure of the experience taken from the data. The transcription began with an open coding whereby notes and headings were written down while reading them carefully. The great attention paid to the reading of the transcribed data was to search for the themes or issues aligned with the objectives of the study.

## Results

The result elaborates the challenges that discombobulate a law enforcement money mule investigation. The difficulties are acknowledged to snag the objective of law enforcement agency to combat the money mule problems that have no intention to disappear.

### *Challenges in money mule investigation*

The flow of the enforcement agency's investigation on money mule cases was explained by Rahmat in the interview. An investigation is launched upon receiving a victim's complaint, police report or STR from FIED. The chief target for the enforcement agency in money mule investigation is to follow the trail of the fraudulent fund. The money trail analysis involves statement request from the affected money mule bank and secure a freezing order under AMLATFPUAA 2001 if the law enforcement agency feels the need to stop the fund. The documents requested from the bank such as bank statements, account opening form and ATM card application would provide crucial information on the account holder, fund beneficiary details and modes of transfer. If it is decided that a thorough interrogation would help the investigation, the law enforcement agency will exercise its power to arrest the suspect especially in cases of recalcitrant money mules who refuse to co-operate.

Based on the interview, Rahmat outlined 7 major challenges faced by the law enforcement agency in money mule investigation. The Malaysian Communications and Multimedia Commission (MCMC) as the telecommunication regulator in Malaysia does not exercise full control on telcos which has resulted into scammers using mobile phone networks for fraudulent activities. The enforcement agency is also beleaguered with emaciated resources such as limited fund allocation, technology and expertise.



In the United States, the Federal Bureau Investigation hires brilliant hackers to assist in cybercrime investigations and intercept potential cyberattacks which may result in massive losses.

The investigation could be a long process when the suspect refuses to co-operate. The law enforcement officer has to find alternatives in acquiring the required information such as when banks fail to aptly respond. In some extreme scenarios, the suspected money mule has the gall to sardonically brush off the investigation as wasteful, claiming to have powerful connection with VIPs. The made-up excuse is to seed fear and halt the investigation performed on the suspected money mule. However, this deception does not deter the investigation.

Rahmat highlighted the lack of public awareness on the current money mule threat among the members of society as another challenge faced by the law enforcement agency. The susceptible victims continue to bring rise of money mule cases which eventually inundate the law enforcement workload. The deterioration of public perceptions of the law enforcement agency's function and effectiveness is pushing down the agency's self-confidence. The bad impression given by the public affects the investigation officer's motivation to control the money mule problem.

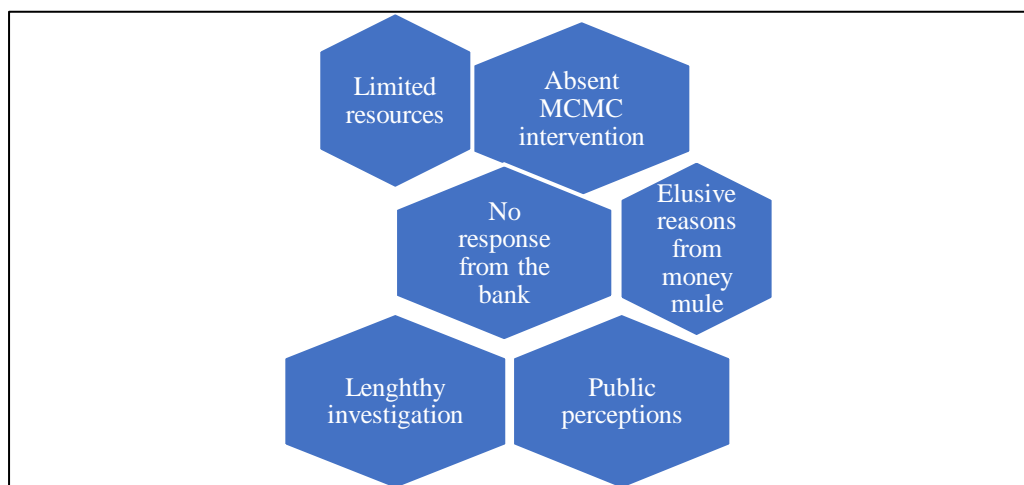


Figure 2: Major challenges faced by the law enforcement agency.

## Conclusion

The conclusion of this article touches on recommendations to alleviate the challenges. Banks are expected to shorten their legal order processing Turnaround Time (TAT). Banks are expected to expedite the production order response. The enforcement agency also would like to see a wider and direct communication access to the bank and not having to go through Bank Negara Malaysia. In some remote cases, the response expected from the legal order is delayed by technical snafu surrounding missing beneficiary/originator information from the account statement. This information is crucial in the law enforcement agency's money mule investigation to trace the origin of the fraudulent fund and subsequent money trail. The law enforcement agency believes that the bank is not wrestling its fullest action to explain the ethical personal account conduct. Every account holder should be informed, educated and reminded that their account or ATM card should not be surrendered to a third party. The modus of money mule operation is largely reliant on account infringement by criminals. If the account conduct is clearly explained during account opening and continuously disseminated to bank's clients, the money mule phenomenon could be prevented.

Awareness campaigns is the most important strategy in combatting the money mule. The key players including banks, enforcement agencies, telcos and regulators should work together. The campaign should be in printed media and electronic advertisements. Local advertisement spaces found in public transports, malls, highways, parks and other venues could be used to propagate the campaigns. Celebrities, social media influencers, prominent public figures must continue to talk about the money mule threat. The collective effort to campaign for the danger of the money mule phenomenon will somehow help to keep a tight rein on this issue.

## Acknowledgement

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## Exploring Malaysian SMEs Challenges In Mitigating the Cybersecurity Threat

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### Abstract

Cyber security risks and threats have increased in recent years, causing significant economic and social losses to public and private organizations as well as individuals. There has not been much attention given to the impact of exposure of Malaysian SMEs businesses to high levels of cyber-attacks, especially those related to the post-COVID 19 era. Hence this study explored the main challenges in managing information security risks in remote office environments in terms of processes (information security risk management (ISM) i.e., risk accountability, policies), people (human capital capabilities i.e., technical skills in information security) and technology enhancement (i.e., digital technologies). It was a qualitative study which required interviews with various industries consisting of local operators of SMEs in Malaysia. The samples were selected to represent each of the sectors, mainly, services and manufacturing. The respondents comprised of 12 representatives from their organisations either businesses owners or decision-makers. The data set was from the 12 semi-structured interviews with these respondents. The main challenges in implementing a sound information security risk practices were there was no management buy-in to invest in good information security practices since there is no urgent need to do so. Although there was an incident but there was no significant financial implication and major business disruption that required urgent adoption of good information security practices. Cost would be the second challenge. Most of the SMEs will rather take corrective actions on a case-by-case basis upon occurrence of an incident than invest that did not contribute to Return on Investment (ROI). This study could provide preliminary data on the challenges faced by SMEs to minimize information security threats. Such data could be used by the MCMC and other relevant regulatory bodies to strategize action to assist SMEs accordingly.

**Keywords:** Information Security; Cyber Crime; Small and Medium Enterprise; Covid-19

### Introduction

Cyber security risks and threats have increased in recent years, causing significant economic and social losses to public and private organizations as well as individuals. The recent data from the Cyber Security Malaysia (CSM) stated that in the year 2020 alone, more than 10,700 cyber security attacks on corporations, business organizations and individuals nationwide for incidents such as ransomware, malicious attacks, data breaches were recorded, indicating that cyber-threats are growing in digital ecosystems. There has not been much attention given to the impact of exposure of Malaysian SMEs businesses to high levels of cyber-attacks, especially those related to the post-COVID 19 era. The lack of attention to this research area indicates that cybersecurity management in this new age economy (digital) is an uncharted territory and requires further investigation. The objective of this research was to explore the comprehensive landscape of cybersecurity management in the Malaysian SMEs business context. Particularly, the purpose of this research was to investigate the main challenges faced by SMEs in managing their cybersecurity risks with the escalating cyber security threats, which significantly affect SMEs businesses.

### Literature Review

The Covid 19 Pandemic has pushed these organizations to pace into a new business model, catalysed by internet technologies for ecommerce and other online business platforms. However, the increasing

online activities by SMEs has also led to openings for cybercriminals. COVID 19 has changed the way of doing business for SMEs. While most of the business' activities are conducted via online platforms, many are left clueless that the organization's data are exposed to the susceptibility of cybersecurity risks. In addition, with work for home (WFH) mode activated, this new norm compels SMEs to evade their cybersecurity control, hence jeopardizing their organization's data and information assets.

Teece, Pisano, & Shuen (1997) stated that the Dynamic Capabilities Framework (DC) can be used by organization to achieve competitive advantages in the rapidly changing technological environment. The authors highlighted that the dynamic capabilities framework has the capacity to analyse the sources and methods of wealth creation. Most importantly, the study highlights the importance of mobilizing "internal technology, organizational, and management process" to create a competitive advantage. By definition, DC represents an "organization's ability to integrate, build, and coordinate internal and external competences to combat a rapidly changing environment" (Teece et al., 1997). In other words, DC represents the ability to assess a threat and turn it into the opportunity that could create a competitive advantage. Clearly, to survive and create a competitive advantage, the ability to exploit existing opportunities, create opportunities and the ability to foresee emerging threats is crucial (Hussain Shah, Ahmad, Maynard, & Naseer, 2019).

Observing the SMEs vulnerabilities to cybercrimes, there is an urgent need to examine the current challenges faced by SMEs in managing cybersecurity threats which are evolving at a fast pace. In the context of this study, we utilised the DC to investigate the main challenges faced by the SMEs, in mobilizing their information security management (process), human capital capability (people) and technology to create competitive advantage during and post-pandemic period. Specifically, the area of investigation for Information Security Management was divided into three factors in the form of administrative security (ASP), technical security (TSP) and Physical and environmental security (PES) following suggested practices by previous studies (Baker and Wallace, 2007; Zaini et al., 2020). The area for investigations for human capital capability covered awareness, compliance, competencies, and internal expertise with regard to InfoSec as a response to a call by Georgiadou et al., (2021). Finally, the challenges faced by SMEs in terms of technology used to mitigate cybercrime was also explored to confirm findings of previous studies (for instance (Bank, 2021; Bernama, 2021; Toufaily, Zalan, & Ben, 2021)).

## **Research Methodology**

### *Samples*

The samples used in the study were from various industries consisting of local operators of SMEs in Malaysia. The samples were selected to represent each of the sectors, mainly, services and manufacturing. The respondents comprised of 12 representatives from their organisations either businesses owners or decision-makers. The data set was from the 12 semi-structured interviews with these respondents. The size of the SMEs micro, small and medium was based on the definition of Malaysian SMEs (SME Corp. Malaysia, 2021).

### *Data Collection and Analysis*

Data collection was conducted during the COVID-19 Pandemic period, which was from 1 September 2021 until 30 November 2021, by employing the online interview method. Online invitations were sent to representatives from each SMEs informing them about the aim of this study and invitation for participation in the research. An online interview was conducted via google meet. This platform was used since face-to-face meetings were not encouraged to ensure social distancing and to minimize the risk of a COVID-19 infection. Each interview session was recorded with respondent's consent and agreement. The statements captured in the interview sessions were then transcribed and transferred to ATLAS.ti. The deductive coding process was done in the ATLAS.ti code manager based on the area of investigation identified based on the DC framework. Overall, there were 17 predetermined codes that were listed for data analysis purposes. Each transcribed interview was then analysed based on appropriate codes. Respondents' responses on the challenges in Information Security Management was represented by twelve (12) codes, Human Capital Capability was represented by four (4) codes, and Technology was represented by one (1) code. **Table 1** lists a detailed description for each code and its related number of quotations.

Table 1. Description of Codes and Quotation

Main Area	Sub-Area	Coding	Description	No of Quotation
Information Security Management	Administrative Security Practices (ASP)	ASP-POL-CHAL	Information Security Policy	1
		ASP-HRS-CHAL	Human Resource Security	1
		ASP-COMP-CHAL	Compliance with Law	3
		ASP-INC-CHAL	Incidence Management	0
	Technical Security Practices (TSP)	TSP-ANT-CHAL	Antivirus	0
		TSP-PWD-CHAL	Access Control and Password	2
		TSP-LOG-CHAL	Log Out Procedure	0
		TSP-SC-CHAL	Software Compliance	1
		TSP-BACK-CHAL	Backup Procedures	0
		TSP-NET-CHAL	Network Security	0
	Physical and Environmental Practices (PES)	PES-SCA-CHAL	Secure Area	1
		PES-SCE-CHAL	Secure Equipment	2
Human Capital Capabilities	Awareness	HCC-AWE-CHAL	Awareness	4
	Compliance	HCC-COMP-CHAL	Compliance	2
	Competency	HCC-COMPE-CHAL	Competency	4
	Internal Expert	HCC-EXP-CHAL	Internal Expert	1
Technology	Technology	TECH-CHAL	Technology	13

## Findings and Discussion

From the analysis, the summary of findings can be separated into three main themes which are information security risk management, human capital capabilities, technology enhancement and business agility. The main challenge to implement sound information security risk practices was the lack of management buy-in to invest in good information security practices. Although there could have been incidents, there was no significant financial implication, and no major business disruption that required urgent adoption of good information security practices. Cost was the second challenge. Most of the SMEs would rather take corrective actions on case-by-case basis upon occurrence of the incidents then invest in something that did not contribute to Return on Investment (ROI). In terms of human capabilities, most of the staff were aware of the existence of threats. However, lacked competencies to handle the threats. The company depended too much on one key staff to manage matters related to Information Technology including information security. Most of the IT care takers admitted that they have basic knowledge on IT related matters. Most of the time they will try to solve the matters related to information security by themselves either by referring to YouTube or friends and they have no backup staff to immediately replace the person in charge.

For technology enhancement, the main challenge to invest in technology enhancement was the lack of management buy-in since there was no urgent need to do so. Although there could have been incidents, there was no significant financial implication, and no major business disruption that required the urgent acquisition of enhance technology. Most SMEs opined that current controls put in place were sufficient and adequate to protect them from information security threats. In addition, cost would be the second challenge. Most of the SMEs prefer to outsource internal applications to Application Services Providers (ASP) because it frees up resources and allows organizations to focus on their core competencies. Additionally, it serves a way of reducing costs for many organizations that do not have

the expertise in-house or the funding to support in-house information systems. The enhancement in technology will take place subject to future expansion of the business.

## Conclusion

Observing the growing vulnerability of the InfoSec threats to the SME's sustainability, the ability to quickly mobilize the right combination of resource (individual capabilities), process (Information Security Risk Management) and technology could minimize the impact of information security threats to business agility. Moving forward, initiatives taken by relevant stakeholders should address the main challenges faced by the SMEs in establishing proper and sound information security management. Stakeholders need to carefully assess the benefits, costs and risks that can help a company to identify the initiatives with the highest potential to gain management confidence in investing in information security. Furthermore, the initiatives given must be easy for the company to adopt and cost effective with minimum resources due to the limitation of staff considering the size and operations of the company.

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