CHAPTER FOUR

RESEARCH FINDINGS

4.1 INTRODUCTION

This chapter reports the findings from the analysis of the MAD index and questionnaire that attempts to provide the empirical evidence on the current practice and uses of the annual reports of public institutions of higher learning in Malaysia.

4.2 MAD INDEX ANALYSIS

The annual reports of the twelve IPTA for the year 1999 and 2000 were requested from the Vice Chancellor of the respective IPTA but only five of the IPTA actually replied and sent their annual reports. The remaining eight IPTA annual reports were examined in the Ministry Of Education (MOE) Department. From the twelve IPTA, however, one international university that is established under the Companies Act is only required by MOE to send its financial statements. The university is also required by the Registrar of Companies to file its annual return. Due to this, there are no annual reports of the IPTA that can be examined. Additionally, financial report of one IPTA was not included in its annual report that was sent to MOE, thus it MAD index for the financial performance items cannot be calculated. Furthermore, one IPTA was established in the year 2000, therefore only one annual report that is for the year 2000 can be examined.

Overall, there are 10 IPTA annual reports in the year 1999 and 11 IPTA annual reports in the year 2000 were examined. The MAD index indicates a quality and quantity of accountability information in the annual reports. Scores for each university are determined by calculating the weighted sum of the quality disclosure using the Coy et al. (1993) five-point scale and subjective weights as explained in Chapter Three. The scores have been normalized to indicate a maximum score of 100 to enable comparison between sections of the index.

4.2.1 RESULTS

The summary of the results of the MAD scores is presented in Table 4.2(a). The index scores are in potential range from 0 to 100. The scores are ordinal in nature that indicates while a report with a score of 20 is better than one of 10, but it does not mean the former twice as good as the other. The arithmetic mean is used as a method to detect trends. Thus this finding is discussed in the belief that a change in average score from one year to the next indicates improvement or decline in the score direction. Based on Table 4.2(a), it can be seen that average MAD scores for Malaysian IPTA are 36.5 and 33.8 for the year 1999 and 2000 respectively. Maximum score are 49.7 and 51.7 and minimum score are 29.1 and 16.7 for the year 1999 and 2000 respectively.

Table 4.2(a)

Overall MAD Scores for Institutions : Quality (0-5 Scale)

(Maximum Score 100)

IPTA	Year 1999	Rank	Year 2000	Rank	Change
1.Universiti Malaya (UM)	43.2	2	39.5	4	-3.7
2.Universiti Sains Malaysia (USM)	36.2	4	40.3	3	4.1
3.Universiti Kebangsaan Malaysia (UKM)	36.1	5	36.4	5	0.3
4.Universiti Putra Malaysia (UPM)	39.0	3	41.2	2	2.2
5.Universiti Teknologi Malaysia (UTM)	35.2	6	24.8	9	-10.4
6.Universiti Utara Malaysia (UUM)	49.7	1	51.7	1	2.0
7.Universiti Malaysia Sarawak (UNIMAS)	30.8	8	16.7	11	-14.1
8.Universiti Malaysia Sabah (UMS)	35.0	7	31.9	8	-3.1
9.Universiti Pendidikan Sultan Idris (UPSI)	29.1	10	32.4	7	3.0
10.Universiti Teknologi Mara (UiTM)	30.4	9	32.3	6	1.9
11. Kolej Universiti Islam Malaysia (KUIM)	-	-	24.0	10	24.0
AVERAGE	36.5		33.8		

UUM recorded the highest overall aggregate score for 1999 with 49.7 and continue to hold the highest score index in 2000 with a slight improvement to 51.7. UM recorded the second highest index score in 1999 but show a deterioration and fall to fourth highest index scorer in the year 2000. Three other IPTA, namely UTM, UNIMAS and UMS also show deterioration in the quality of their annual reporting. The difference between IPTA annual reports occurred because the IPTA failed to publish and distribute annual reports, which include adequate information and in particular, summarized comparative information regarding student numbers, graduate employment, research publications and future planning.

One thing to point out about the UUM annual reports is that it is the only annual report that provide a five-year statistical figures for important items that include student-staff ratio, cost per student and number of students for the five-year period.

UM's annual reports, on the other hand, presented lesser information on the students' number and publications in comparison with 1999 annual reports. For UNIMAS, the main reason for the major decline is the non-existent of the financial statements in the 2000 annual reports. This might be due to reason that some institutions may submit annual reports without the financial statements to the Ministry by statutory dates and then issue the audited financial statements some time later. However in reference to Treasury Circular No 15 (1994) the audited financial statements must be sent to Ministry by 30th August of the following accounting year. Thus in this circumstances, the financial statements should have been included in the 2000 annual reports.

Overall disclosure between 1999 and 2000 of the annual reports was virtually unchanged. In average, annual reports of Malaysian IPTA only satisfy 33.8 out of the 100 scores assigned for the public accountability items.

It would also be better to assess the annual reports by their individual sections of the MAD index to examine in what area of presentation that Malaysian IPTA annual reports are lacking. Table 4.2(b) presents a summary of the quality of individual sections of the annual reports. Table 4.2(c) provides a summary of the quality average of each item in the individual sections.

Table 4.2(b)

Average Score by Category -Quality of Individual Sections (0-5 Scale)

(Maximum score 100)

Sections	**1999**	**2000**
OVERVIEW	50.9	52.1
SERVICE PERFORMANCE	30.6	26.4
FINANCIAL PERFORMANCE	24.1	20.5
PHYSICAL AND FINANCIAL CONDITION	40.3	36.1

Table 4.2(c)

Quality Averages of Each Item of Accountability Index: Quality (0-5 scale)

	1999	**2000**
Overview		
Statements of Objectives	1.6	1.8
Description of reports/General Review	3.0	3.0
Summary facts and figures	2.6	2.7
Financial Review	2.4	2.3
Accounting Policies	2.9	2.5
Directory Information	3.4	3.0
Service Performance		
Students numbers	3.2	2.6
Graduates	2.4	2.3
Employment/education Destination Of Graduates	0.0	0.1
Publications	2.1	1.6
Student-staff ratio	0.3	0.3
Targets	0.1	0.1
Financial Performance		
Operating Statements	3.2	2.8
Depreciation	3.3	2.9
Budget-Information	0.2	0.2
Unit Cost Per-student	0.6	0.7
Statements Of Cash Flow	3.0	2.4
Research Grants	2.4	2.2
Overhead Allocation	0.3	0.5
Physical and Financial Condition		
Balance Sheet	3.1	2.7
Staff	2.8	2.9
Library	1.8	1.5
Investments	2.2	2.1
Commitment and contingencies	1.1	0.8
Equal employment and education opportunities	0.0	0.1
Building	2.5	2.4

Based on Table 4.2(b) and 4.2(c), it can be seen that that in average Malaysian IPTA annual reports are concentrating on displaying information on the overview sections. This includes information on the descriptions of reports i.e. the Vice Chancellor reports, statements of objectives and the directory information. But based on empirical evidence, statements of objectives presented by the universities are very general and do not have a time frame indication. Most universities provide a mission of statement of some sorts but most are lacking in the statement of clear, definable and measurable objectives. However, overall presentation on the description reports have been very good in the sense most provides some information on numerous activities and achievements of the universities. Interestingly, many published a financial review in very minimal sentences. There is no specific section that provides review of revenues, costs, assets and liabilities. Most universities are contending with providing a pie chart that shows a breakdown of universities incomes and expenses for a two-year period.

According to Treasury Circular, the financial review must include as far as possible the comparative figures or ratio analysis for the five- year period in order to display the performance status of the IPTA. Thus this was not followed by majority of the IPTA. In terms of summary facts and figures, there are no five-year trends and comparatives figures to assess the efficiency of the universities. Beside the five-year statistical highlights presented by UUM annual reports, other universities' annual reports only provide information for a two-year period.

However, surprisingly, reporting on the service performance is much better than the financial performance in the year 1999 but fall slightly in year 2000. The service performance includes information regarding student numbers, graduates, destination of graduates, publications, student- faculty ratio and targets. But it is still not enough to adequately satisfy the public accountability requirements. Most universities provide the number of students in a two-year period but only with a brief discussion. It is generally concede that in relation to service performance, items such as teaching and research would be a prime function of the universities. However, there was not the case in the annual reports. The lack of disclosure in the service performance category is interesting in the light of corporatisation as the disclosure of service efforts will be demanded from any public or private institutions seeking funds. Information on student-staff ratio is almost non-existent in all the annual reports examined. The destination of the graduates was not mentioned in most annual reports and no university provided summary statistics of research publications on a comparative basis. The failures of many universities to provide information under service performance items make it difficult for stakeholders to make informed judgements about the ability or success of the universities to meet their objectives.

The scores in the financial performance are the lowest among the four categories. Overall, the budget information on the financial performance sections were being ignored in the annual reports and always seems to be non-existent. Unit cost per student and overhead allocation were highly shown. Only a few universities actually display information on overhead allocation in presenting the consolidation accounts. Most universities do tend to disclose operating statements in very similar manner and this gives a certain level of consistency. This might be due to the basic compliance with the accounting standards from MASB framework as specified by the Treasury Circular 1994.

Compliance was evident in the contents of Balance Sheet in the section on Financial and Physical Condition. Unfortunately, most provided very little information on their library holdings or building usage. There was minimal information on commitment and contingencies except for a disclosure in the financial statements that stated the amount of committed fund. Again, level of disclosure regarding equal employment and education opportunities was almost non-existent. Only one university actually provided breakdown of student numbers by male and female categories. Information in regards to academic staff tends to be limited to raw numbers without the descriptive details of number of professor and other ranks. There seem to be no indication of how staffs are allocated among facilities. In summary, overall level of disclosure under this section tended to be minimalist.

Overall disclosure of accountability information in all the annual reports examined indicated minimum requirements. None of the accountability items presented scored on average the highest of the five-point scale assigned to them. Based on this analysis, it is felt that Malaysian universities' annual reports presentation failed to adequately disclose accountability information as specified under the MAD index that incorporates accountability information.

The findings of this study on Malaysian universities' annual reporting are consistent with other studies relating to universities' annual reporting. Studies in Australia, Canada, UK and USA also revealed the low degree of disclosure of accountability information in public universities annual reports. Despite regulations by government and recommendations by the accounting professional bodies and also a called for greater accountability in these various countries, the contents and presentations of the annual reports are not much different from the Malaysian scene. It worth noting out that annual report of these various countries are also lacking in the service performance information. The study of Canadian university annual reports revealed a score of 24.5 as the highest MAD score recorded by Calgary University for the year 1996 annual reports. In average for 1996 annual reports, Canadian university only satisfy 14% of the public accountability requirements. Similar to this, a study of UK universities also shows the score of the highest index of 40 for annual reports of UK universities. However, study of Australian university conducted by Nelson et al. (1997), revealed much higher quality based on MAD index than UUM annual reports. Murdoch University recorded a score of 64.5,64.5 and 63.0 for the annual reports of the year 1993,1994 and 1995, which were the highest MAD scores. Dixon et al. (2002) study on New Zealand universities also revealed Waikato University as the best quality annual reports based on MAD index with the score of 89.

Based on Table 4.2(a) it can be said that UUM annual reports are considered to be the best annual reports of Malaysian public institutions of higher learning that satisfy the public accountability requirements. But judging from the two- year annual reports it is conclude that the trends of the annual reports are virtually unchanged and to some IPTA the quality has fallen slightly. Additionally, the score of only 51.7 by UUM also indicated that Malaysian universities annual reports still lacking in terms of displaying its public accountability obligation. In Malaysia, overall disclosures of the accountability items are only half or less of what is required under the accountability framework.

With Waikato, the New Zealand university scores the highest 89 index, it seems more likely Malaysian annual reports still has a long way to follow the more comprehensive annual reports that satisfying the public accountability requirements. Malaysian IPTA annual reports still have a long way to embrace the full concept of accountability.

4.3 QUESTIONNAIRE ANALYSIS

The questionnaire with posted self-addressed envelope was sent to eighty people that were identified from the literature review as the users or recipients of annual reports of public institutions of higher learning. After two reminders, only 25 questionnaires were answered. Many of the top managements of the reporting institutions that were called indicated their lack of time in completing the questionnaire. There is also a low response from the Board Of Directors in which only three members of the Board Of Directors actually responded to the questionnaire. One IPTA actually refused to give out addresses of their Board Of Directors, despite being giving assurance that this will only be used for research purposes. This in turn had made it difficult for the questionnaires to be distributed. Table 4.3(a) presents the frequency table regarding the type of respondents.

Table 4.3(a)
Types of respondents

Respondents	**Frequency**
Boards Of Directors	3
Official Or Staff Of Ministry Of Education	4
Management Of Reporting Institutions	13
Others-Management Of Competing Institutions	5
TOTAL	25

The responses derived from the questionnaires were coded and entered into SPSS spreadsheet. Descriptive statistics (frequency, mean) is used to determine the actual and expectation qualitative and quantitative characteristics of Malaysian IPTA annual reports.

Out of the twenty-five respondents, five respondents actually did not receive any annual reports of the IPTA. The five respondents include three respondents from the category of the management of competing institutions. These refer to management of the new college universities that were established in the year 2001. One thing to highlight is, according to one of the management of the universities, it is not a normal practice for IPTA to give out their annual reports to other IPTA unless being asked for. The other respondent who did not receive any annual reports was, surprisingly, one of the management of the reporting institutions itself. The respondent stated that he did not receive any annual reports including reports from his own institution.

Another surprise revelation was that one member of the Board Of Directors also did not receive any annual reports. Treasury Circular No 15 (1994) has specified that the annual report as well as the financial statements must be presented in the Board of Directors' meeting on the 25th of April the following year. However there was no mention of the distribution of the annual report to either the management or the Board Of Directors of the reporting institutions. Both situations provide an interesting doubt in the extent to which an annual report is distributed to the community. It is likely that institutions usually distribute their reports as required under the statutory obligation and no further. Thus in consequent, such reports may be presented only to MOE.

This is something for all the IPTA and also the regulators to think about as the aspect of accountability lies in the distribution of the annual reports. In contrast, some overseas universities do provide their annual reports in their web site. It would be an interesting to see whether Malaysian universities would be following the same trend.

Nevertheless, for those who did receive the annual reports, 72.2% of them agreed that the annual reports do provide valuable information and useful reference to them. One respondent, however, stated that due to the historical information displayed in the annual reports, it only provide outdated valuable information.

4.3.1 Users' opinion on the report qualities

The overall respondents' opinion about report qualities and expectation gaps is represented in Table 4.3(b).

A list of the means for each quality is shown in Table 4.3(b). The data was collected using a five-point Likert scale. Group A represents opinion on the actual qualities that exist in the current annual reports, whereas Group B indicates opinion on the expectation qualities of the annual reports.

Table 4.3(b)

Report Qualities Expectation Gap

Qualities (1)	**Group A** (2)	**Group B** (3)	**Gap** (4)
Timely	3.05	4.65	1.60
Attractive	3.76	4.50	0.74
Understandable	3.86	4.83	0.97
Relevant	4.10	4.70	0.60
Restricted to good news	2.86	2.36	-0.50
Reliable	4.00	4.48	0.48
Useful for decision making	4.05	4.83	0.78
A basis to make comparisons with other institutions	3.79	4.74	0.95
Provided information that of a value	4.10	4.61	0.51
A basis to make comparisons about this institution over time	3.90	4.78	0.88
Average for all items	3.75	4.45	0.70

*Data was collected using a five-point Likert scale.

- The significance difference was tested using a standard t-test.
- It was considered that respondents might not have sufficient information to provide informed opinions about some of the qualities listed in the Questionnaire. Therefore there have been left out from the analysis. The results for these items were: "lacked coverage of future", 3.10 (Group A), 2.09 (Group B), -1.01(Gap)"favoured the interests of the compiler", 2.45 (Group A), 2.39 (Group B), -0.06 (Gap), and "properly verified", 3.81 (Group A), 4.78 (Group B), 0.97 (Gap).

The overall mean score for the questions relating the qualities of actual report was 3.75 (minimum possible 1, maximum 5). The means for individual quality ranged from 2.86 for "restricted to good news" to 4.10 for "provided information of a value" and "relevant". A list of these means is shown in Column 2 of Table 4.3(b).

The overall mean score for the normative questions relating to qualities was 4.45 (range 1 to 5). The highest quality means are "understandable" and "useful for decision making" with means of 4.83.The lowest mean is for the "restricted for the good news" with means of 2.36. A list of these means is shown in column 3 of Table 4.3(b).

The differences in the means indicated the existence of expectation gaps between what users found in the actual reports and what users expect to find in the annual reports. The overall mean difference is 0.70 and the largest difference was for the "timely" quality. All differences were positive and statistically significant except for "attractive" and "relevant" whereas differences for "restricted to good news" was negative and statistically significant. The differences are shown in column 4 of Table 4.3(b).

It is interesting to note here that the respondents ranked "understandable", "reliable" and "useful for decision making" as the most important report qualities. In average, the means of 3.75 seemed to be just above the three point which indicates the middle point, but approaching the value of four that indicates agreements of the respondents on the present qualities of the annual reports. The respondents felt that the actual reports provide highly relevant information and of a value to them however, with the average expectation gap of 0.70, the users are still expecting more of the qualities in the annual reports.

The highest expectation gap was observed in the "timely" quality of the annual reports. Table 4.3(c) presents the tabulation of opinions of the question regarding "timely" quality of annual reports.

Table 4.3(c)

Opinion on the timely quality of IPTA annual reports

Group A		**Group B**	
Views	Frequency	Views	Frequency
Strongly Disagree	0	Very Bad	0
Disagree	12	Bad	1
Neither	0	Neither	0
Agree	5	Good	5
Strongly Agree	4	Very Good	16
No opinion	4	No opinion	3
Total respondents	25	Total respondents	25

From the table, it can be seen that 48% of the respondents felt that the current annual reports of the IPTA are not timely. Most respondents are also in the opinion that having annual reports that are timely is a very good thing. Accordingly, the MASB framework states that in order for information to be relevant, it must also be available to decision makers before it loses its capacity to influence their decisions. Thus in regards to IPTA annual reports, the empirical evidence indicated that the annual reports are not being presented on a timely basis and thus it puts the constraints on the relevancy of the information. The Treasury Circular No 15 (1994) has specified the step in step guidelines regarding the submission dates of the reports. But, besides the presentation and distribution to universities' council, Board Of Directors and the Ministry, there is no mention of other recipients.

From the analysis there are also large gaps in regards to " a basis to make comparison with other institutions" and " a basis to make comparison about the institution over time". This is consistent with the MAD finding in the sense that lack of information, for instance, a five-year trend or ratio analysis on students numbers, make it difficult for users to make informed judgements.

4.3.2 Users opinion on report disclosures

In regards to disclosure of information, the respondents were asked two sets of questions, namely Group C and D questions. Group C questions relate to the disclosures that the users found in the current annual reports. Group D, on the hand, is questions on their expectations on the disclosure of the annual reports.

The overall mean score for the questions about disclosures in the actual reports was 3.84 (possible range 1 to 5). The means for each individual disclosure ranged from 3.00 to 4.38. A list of the means for each disclosure is shown in column 2 of Table 4.3(d).

Table 4.3(d)

Reports Disclosures Expectation Gaps

Disclosures (1)	Group C (2)	Group D (3)	Gap (4)
Full understanding of the institutions objective	4.38	4.43	0.05
Who governs and manages the institution	4.33	4.57	0.24
Educational performance in comparison with other institutions	4.37	4.65	0.28
What research the staff are engaged in	3.86	4.43	0.57
What institutions trying to achieve in quantitative terms	3.86	4.30	0.44
What institutions trying to achieve in qualitative terms	3.29	4.61	1.32
How effective the institution is	3.29	4.48	1.19
How successful the students have been	3.19	4.30	1.11
The overall future plans of the institution	3.29	4.35	1.06
The financial performance in comparison with other institutions	4.29	4.39	0.10
The human and financial resources available	4.29	4.48	0.19
How the human and financial resources are distributed	4.19	4.43	0.24
The approach to gender discrimination	3.00	4.17	1.17
The financial implications of future plans	3.81	4.45	0.64
How efficient the institute is	4.25	4.57	0.32
Average for all items	3.84	4.44	0.60

* Data was collected using a five-point Likert scale.

- The significance difference was tested using a standard t-test.
- It was considered that respondents might not have sufficient information to provide informed opinions about some of the disclosures listed in the Questionnaire. Therefore there have been left out from the analysis. The results for these items were: "size and composition of student body", 4.33 (Group A), 4.13 (Group B), -0.2 (Gap), "surplus or deficit of the institution", 4.57 (Group A), 4.48 (Group B), -0.09 (Gap), "revenue of the various services, 4.57 (Group A), 4.39 (Group B), -0.18 (Gap), and "costs of the various services" 3.43 (Group A), 3.09 (Group B), -0.34 (Gap).

The overall mean score for the normative questions relating to disclosures was 4.44. The highest means was scored by "educational performance of the institution in comparisons with other institutions" with 4.65 and the lowest was " the approach to gender discrimination". Overall, most of the means for the qualities are above 4.00. A list of the means is shown in column 3 of Table 4.3(d).

The overall mean difference was 0.60 and the largest different was " what institutions trying to achieve in qualitative terms". The differences are shown in column 4 of Table 4.3(d). All differences were positive and statistically significance except for "full understanding of the institutions objective"," who governs and manages the institution", " the financial performance in comparison with other institutions", " the human and physical resources available", how the human and physical resources are distributed" and " the approach to gender discrimination".

One of the expectation gaps is found in "the overall future plans of the institutions". This related to the analysis of the MAD index, which showed that annual reporting on budget information was almost non-existent. The means of 3.29 indicated that annual reports do not seem to contain a lot of budget information. An expectation gap is also apparent in relation to disclosure on "the financial implications of future plans". Again, this is in consistent with the view that annual reports focus on information about events and transactions that already happen and can be verified. This is also consistent with the findings in study conducted by Coy et al. (1997) on the recipients of TEI annual reports in New Zealand.

Furthermore, another large gap is found in disclosure relating to "how successful students have been". This is consistent with MAD index finding which indicate a lack of information on student numbers. The two-year period number of students as currently appeared in the annual reports and no information on the destination of graduates made it difficult for users to measure the successfulness of the students.

The largest gap in relationship to disclosure is found in "the approach to gender discrimination". Again this is consistent with the MAD analysis. Only one university actually provided the breakdown of number of students based on gender, others did not provide this information.

4.3.3 SUMMARY OF ANALYSIS

Overall, the average expectation gap for the qualities was higher than the gap for report disclosures. In relation to the MAD index, it can be said that items that are in accountability requirements are considered to be lacking in the current annual reports. The users are expected more of these kind of information in enable them to assess the effectiveness and efficiency of the institutions.

Despite all this, majority of the respondents of the questionnaire indicated that the current annual reports are better in the terms of presentation. One respondent also stated that more information on the efficiency of the institutions is presented in the annual reports. However, there is a call for more timely report to enable monitoring the efficiency and effectiveness of the institutions. In contrast, there is also a view that the changes in the annual report do not indicate changes in the institutions thus the effectiveness and efficiency of the universities do not depend on what is presented in their annual reports.

The analysis reveals that users want more information from the annual reports. In consistent with the MAD index study, the current annual reports are not an instrument of displaying future plan of the universities or a basis of comparison over time or over industry. Users however do expect the annual reports to show this kind of information and also require the timely distribution of the annual reports. The analysis might also indicate that in contrast with the reviewed literature, the distribution list of the annual reports might not include the Board Of Directors. This again might explain the lack of response form this type of users.

4.4 CONCLUSION

This chapter provides the findings of the MAD index and questionnaire analysis that shed lights on the current practice and uses of public institutions of higher learning annual reports. Empirical evidence showed that the annual reports of Malaysian IPTA are lacking in satisfying the public accountability requirements. Evidently, the questionnaire analysis indicates that users of the annual reports regards annual reports as useful in decision-making. However, the existence of expectation gap in both of the qualities and the disclosures of annual reports provides evidence of the inadequate information presented in the current annual reports.

The next chapter will provide the conclusion and recommendations for future research.