CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The study will investigate a new reporting standard for private entity in Malaysia. Determining the data and identify a suitable and well-justified method of statistical analysis are the crucial parts of any research and study. In this aspect, the chapter considers the data and methods used to obtain information about the research issue.

This chapter discusses the research process of the present study, focusing specifically on research design and data collection. It will involve a detailed discussion about the method that will be used and the reason why of using that method. Demographic study, research design, method and instruments for data collection, sample size and selection, sampling techniques and procedure, questionnaire structure, conceptual framework, hypothesis, control variables, model specification, variables measurement, presentation, data analysis and interpretation, pilot study, and reliability analysis also will be being elaborate in this chapter. This chapter will also explicate the processing of data analysis. Furthermore, this chapter is essential because of its nature of necessity in social scientific research.

3.2 Demographic Study

This research will focus essentially on the new and latest financial reporting framework, Malaysian Private Entity Reporting Standard (MPERS) adoption and the financial reporting quality by Small and Medium Enterprises (SMEs). The study population

included the mainstream SMEs which have been using MPERS in their financial reporting starting 1st January 2016. This study only focuses on SMEs in Malaysia, based on their importance for the country's economy.

3.3 Research Design

The primary objective or goals in this research is to ascertain the relationship between Malaysian Private Entity Reporting Standard (MPERS) adoption and financial reporting quality by Small and Medium Enterprises (SMEs) in Malaysia. Quantitative analysis, qualitative analysis, and mixed research method (quantitative plus qualitative) are three widely research paradigms that been accepted widely. This research is explanatory research and it will adopt a positive, deductive approach to the research objectives.

This study will use a quantitative approach in which information will be formally and rigidly analysed in a rigorous quantitative manner, as in the case in point. The researcher will be able to optimise the completeness of key data points and in one time point, they looked at the entire population of SMEs. Therefore, it will be resulted in fewer errors or variables because all variables will only be collected once.

Emphasising the role of calculation and observation is in connecting with numerical data collection and continuing from the positivistic presumption. To gain more information and expertise on the target area of interest relating to MPERS and financial reporting quality, a quantitative approach will be adopted. The quantitative approach is used in this analysis because of the scope of the study area and the methodological usefulness in statistically assessing the relationship between variables of interest.

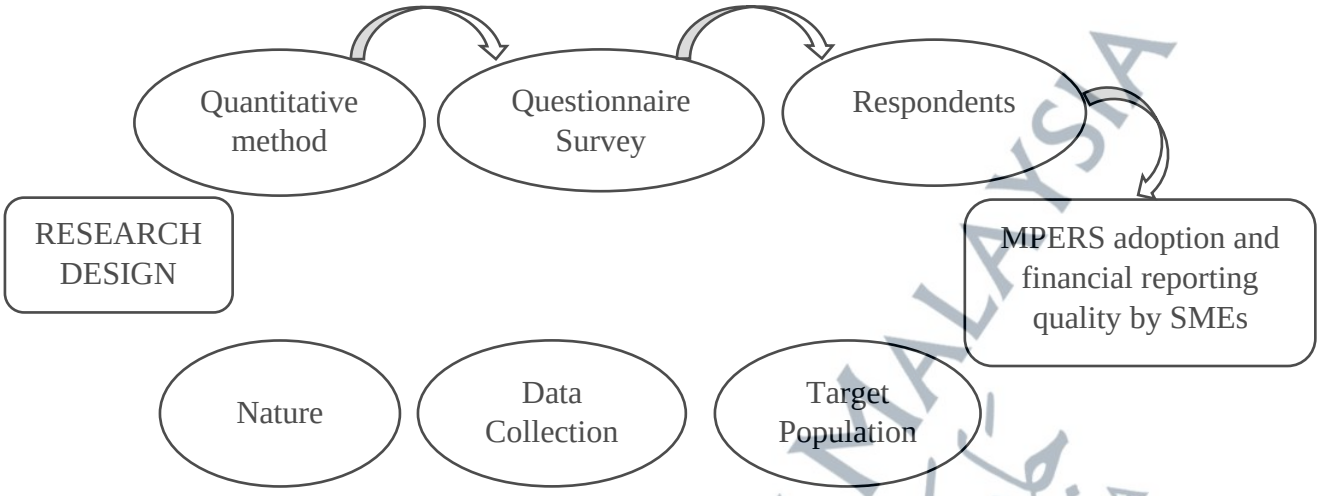

Figure 3.1: The Research Design Model

3.4 Methods and Instruments for Data Collection

The analysis will utilise primary data. Primary data will be obtained from the SMEs using a self-administered questionnaire. As a research instrument, a questionnaire will be utilised to collect data. The questionnaires will be distributed to accounting practitioners who directly work with the MPERS, such as accountants, auditors, and tax agents who implement and experience MPERS in their financial reporting. This selection of respondents is based on accounting practitioners who understand the MPERS framework and adopt the MPERS framework in preparing for entities' financial reporting, who mostly work as external auditors, external accountants, and tax agent which is independent of all client and provides accountancy services to third parties.

3.5 Sample Size and Selection

The sample size is a term commonly used in statistics and market research, and one that usually appears when a large population of respondents is surveyed. This relates to how research on large populations is done. The sample size is very important to obtain the accurate, statistically significant results and to conduct analysis effectively.

The sample size for this study will use the Cochran formula (Cochran, 1977). The Cochran formula allows the measurement of sample size in accordance with the requirements of the desired level of accuracy, the acceptable level of confidence, and the approximate estimation of population attributes. In situations with large populations, the Cochran formula is considered highly relevant. More information about smaller populations than larger ones is produced by samples of a particular size. Thus, there are corrections that can be used to reduce the amount given by the Cochran formula if the entire population is relatively small (Al-Hemyari, 2018).

Proposition Z, with a plus or minus 5percent margin of error 90 percent confident, 95 percent confident, and 99 percent confident are the most accepted or common confidence intervals. The confidence interval applied in this research was 95 percent confidence. Since the poll has not yet been done, a standard deviation of 0.5 is a reasonable assumption, as it will provide a large enough sample size. The most common level of confidence has a Z score of:

- 90 percent - Z score = 1.645
- 95 percent - Z score = 1.96
- 99 percent - Z score = 2,576

Required Sample Size = *(Z-score)2 * Standard Deviation*(1-Standard Deviation) / (margin of error)2*

= ((1.96)2 x .5(.5)) / (.05)2

= 384.16

= 384 respondents are needed

The questionnaire will be distributed to more than 384 respondents to get the full number of respondents needed and will be distributed to accounting practitioners in Klang Valley (Selangor and Kuala Lumpur)

3.6 Sampling Techniques and Procedure

The sample was obtained from the sampling frame through stratified random sampling of SMEs. This will be ensured that all the sectors and SMEs are represented. Each stratum in the sample had an equal probability of being chosen. The sample will be stratified based on the different sectors and percentage distribution. The sample strata are also consistent with the percentage distribution of microenterprises as compared to small and medium enterprises in Malaysia; 78.4 percent, 20.0 percent, and 1.6 percent, respectively ((SME Annual Report 2019/2020).

3.7 Questionnaire Structure

In data collection, a questionnaire survey will be used in which all the data are gathered from the respondents between two weeks to two months. Questionnaires survey was chosen because its common research method which provide a quick, effective, and affordable way to acquire a lot of data from huge sample sizes. A general introduction

specifying the purpose of the study and instructions for respondents will be included in the questionnaires.

The questionnaire was built based on the thesis title and based on the information required. This questionnaire considers the target respondents and the method of reaching the target respondents to answer this question. The questionnaire will be organised into four sections. The first section focuses on the biographical or background information analysis. The second section is about MPERS adoption by SMEs. The content of the questionnaire is built through the MPERS framework as well as the IFRS for SMEs framework. The questionnaire was also built based on prior studies about the MPERS framework, IFRS for SMEs frameworks such as Aziz et.al (2019), Jamil et. al (2020), and Jamil and Rusli (2021). Then followed by a questionnaire about financial reporting quality. The questionnaire was developed based on the definition of each variable. The questionnaire has also been constructed by prior studies on qualitative features of financial reporting quality such as Beest et al. (2009), MASB (2014), Tontiset and Kaiwinit (2015), Gajevszky (2015), Herath and Albarqi (2017), Mwambu (2018), Zandi and Abdullah (2019), and Syahputra and Saraswati (2020). Finally, the questionnaire will be asked for opinions about how to improve or enhance the financial reporting quality.

The primary data will be collected as a quantitative study technique using self-administered, organised questionnaires. The questionnaires were created according to variables from the research study. Responses to questions regarding the adoption levels were based on the nominal scale that determined whether the entity had adopted MPERS; hence: 1 represented (N/A-Not Applicable), 2 (No), and 3 (Yes), while quality parameters have been evaluated using the included 5 Likert scaled range; 1 (strongly disagree), 2

(disagree), 3 (not sure), 4 (agree) and 5 (strongly agree). The language of the questionnaire is English.

Because of the Covid-19 pandemic, the questionnaire cannot be distributed face to face. Using an online google form, the questionnaire distributes to the respondents. The target respondent was an accounting practitioner. The online google form questionnaire was distributed by email to the company, email individual of accounting, auditor, and tax agent. The questionnaire also is distributed through Quick Response (QR) Codes, Website Post, SMS Messaging, and also via an App which as WhatsApp, Instagram, Facebook, and Telegram app.

3.8 Conceptual Framework

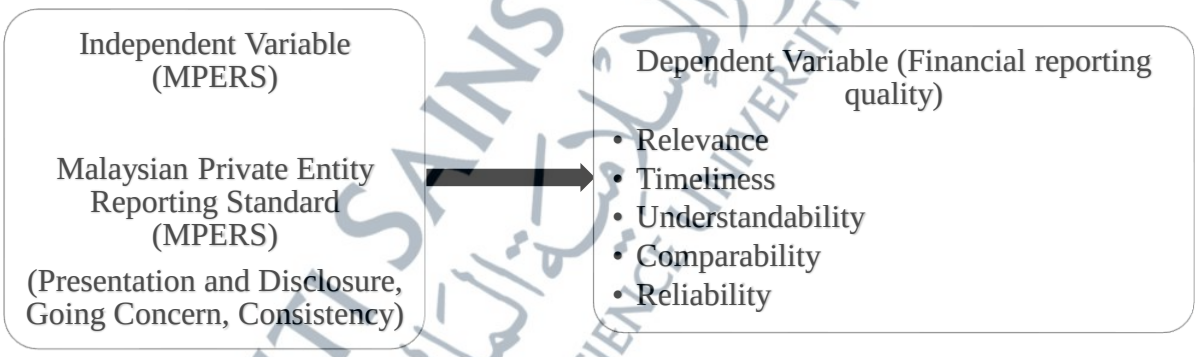

Figure 3.2: Conceptual Framework of the Study

A cause-effect relationship will involve two types of variables: the independent variable and the dependent variable that will be used in this study. The Independent variable will represent MPERS for SMEs adoption, while the dependent variable represents financial reporting quality. Indicators of MPERS adoption will present as a whole MPERS as independent variables, involving presentation and disclosure, going concern, and

consistency. Relevance, timeliness, understandability, comparability, and reliability are types of financial reporting quality indicators that reflect dependent variables. The justification for financial reporting quality is depending on MPERS adoption of financial reporting quality as below:

FRQ= (α+β1 (presentation and disclosure) + β2 (going concern) + β3 (consistency)+ε

If the business had implemented MPERS, it may have been possible to see other financial reporting quality measures, such as reliability and relevance, through the calculation. Adoption of MPERS is the independent variable since it affects the dependent variable (quality of financial reporting) in SMEs. If the independent variable has been changed, the result can be seen in the dependent variable.

The implementation of MPERS might have improved the financial reporting quality, which is demonstrated by the information provided in financial statements that is important and relevant to users' decision-making requirements. This information influences users' decision-making by assisting them in identifying past, present, or potential events that will conform or correct their past valuations. Information is seen as complete, unbiased and error free, without any bias or coercion and the information clearly described. It is also presented in a way that allows users with a fair understanding of entities and economics practices, as well as a readiness to analyse the details with realistic diligence, to understand it and to pick or present the information to accomplish a predetermined outcome or result. It is purposeful to influence the decision making or judgment as it completes within the cost and materiality.

3.9 Hypothesis

The research question on MPERS adoption and financial reporting quality will be tested in hypotheses containing the following qualitative characteristics of financial reporting quality: relevance, timeliness, understandability, comparability, and reliability. MPERS adoption is based on IFRS for SMEs and the two standards are quite similar, and most prior literature on accounting standards will be related to IFRS for SMEs.

3.9.1 MPERS adoption and relevance

Accounting practitioners are in charge of a variety of tasks that demand a high level of accounting complexity, like assessing judgmental accounting areas and comprehending auditing concerns and risks as well as the audit processes suggested to manage them. This aligns with the MPERS purpose of improving the quality of financial reporting. As part of their oversight duties, accountants need to assess the quality of financial reporting. Financial reporting is crucial to users because gives users a quick snapshot of the company's financial position and results to make decisions (Herath and Albarqi. 2017). The study expects that MPERS adoption can provide information that is relevant to users' decision-making needs.

The study was conducted by Schiebel (2015) with the purpose of determining the applicability of IFRS for SMEs in Swaziland, and the results indicate a positive correlation between standard and relevance. The finding shows the majority of respondents agree that IFRS for SMEs is relevant for SMEs and that the standard assures financial reporting is straightforward, comparable, harmonious, and transparent. According to Rosli et al. (2022), the implementation of MPERS for SMEs improved the quality of financial reporting, which

definitely had a role in the entity's successful operation and influence users to make good economic decisions and it resulted in positive relationships between relevance and MPERS. Hence, the first hypothesis is as follows: Hence, the first hypothesis is as follows:

H1. There is a relationship between MPERS with relevance of financial reporting quality.

3.9.2 MPERS adoption and timeliness

According to the MASB (2014), timeliness is described as having information available in a timely manner that allows it to affect decisions. The reporting of financial statements cannot be postponed to the point where businesses realize too late that there is a significant performance or liquidity issue that needs to be resolved. Timeliness refers to how quickly accounting information is made available to users. Information is less useful when making decisions the less timely it is. Because accounting information must compete with other types of information, timeliness is important.

According to Yacoob and Ahmad (2011), in Malaysia timeliness declined after the introduction of IFRS, meaning that businesses issued financial statements after the deadline which resulted in a negative relationship between the standard and timeliness. But it is not consistent with the study done by Rosli et al. (2022) stated the information in the financial reporting was delivered on time by implementing MPERS, which resulted in a positive relationship between MPERS and timeliness. The study expects that MPERS adoption can be presenting financial statements within the decision time frame. Hence, the second hypothesis is as bellow:

H2. There is a relationship between MPERS with timeliness of financial reporting quality.

3.9.3 MPERS adoption and understandability

Understanding presupposes that the material has been classified, described, and presented in a clear and straightforward manner by its preparers. The financial reports are created under the presumption that users are familiar with the company and its economic operations. The requirement for understandability prevents crucial information from being left out on the basis that some users might find it too difficult to comprehend (MASB, 2014).

The prior studies by Mwambu (2018) on IFRS for SMEs with understandability demonstrates that the information was present in financial reporting in a way that users could understand it, and that the presentation of financial information in a way that improves users' ability to understand it is directly and positively linked to the adoption of IFRS. One study by Rosli et al. (2022) stated that users of financial statements can understand the information when implementing MPERS and had a positive relationship between MPERS and understandability. The study expects the presentation of information contained in the financial reporting to be understandable by MPERS adoption. Hence, the third hypothesis is as follows:

H3. There is a relationship between MPERS with understandability of financial reporting quality.

3.9.4 MPERS adoption and comparability

If information about a reporting entity can be compared to similar information about other entities, to similar information about other entities, and to similar information about

the same entity for another period or date, the information about that reporting entity will be more valuable (Syahputra and Saraswati, 2020).

A prior study from Brochet et al. (2013) shows, adopting IFRS on a required basis increased comparability, which benefited the capital markets by limiting insiders' access to confidential information. It is similar to MPERS goals which according to Aziz et al. (2019), the financial statements of local SMEs are thought to be more consistent and comparable due to MPERS. The study expects financial reporting could be compared over time by adopting MPERS. Hence, the fourth hypothesis is as bellow:

H4. There is a relationship between MPERS with comparability of financial reporting quality.

3.9.5 MPERS adoption and reliability

In order to offer users with valuable information to help users make economic decisions, financial reporting reliability refers to the published financial statements that are being produced reliable (Tontiset & Kaiwinit, 2015) When information is chosen or presented in a way that is designed to influence a decision or judgement in order to produce a specific result or conclusion, financial statements are not free from bias (MASB, 2014).

Following a previous study by Mwambu (2018), the adoption of IFRS is strongly related to the presentation of financial information in a way that increases the reliability of users. The study also demonstrated a positive relation between IFRS for SMEs and reliability. According to MASB (2014), the information presents enhanced reliability of users by adopting MPERS. The study expects by adopting MPERS, financial reporting was reliable, free from material error and bias. Hence, the fifth hypothesis is as follow:

H5. There is a relationship between MPERS with reliability of financial reporting quality.

3.9.6 MPERS adoption and financial reporting quality

In order to support capital providers and other stakeholders in making investment, lending, and similar resource allocation decisions, providing high-quality financial reporting information is crucial for improving overall market efficiency (MASB, 2014). Information that is inaccurate, manipulative, or incomplete can be found in financial reporting of low quality.

According to MASB (2014), the MASB's goals are to create high-quality accounting standards for financial reporting that are advantageous to users, preparers, auditors, and the general public.

Yurispadi and Puspitasari (2015) performed a financial statement quality study by measuring the quality of financial reporting before and after IFRS implementation. The result showed the overall financial reporting quality after the IFRS adoption has increased compared to the overall financial reporting quality before the IFRS adoption. This is lined with the purpose MPERS had been introduced to improve quality financial reporting and MPERS based on IFRS for SMEs framework. This show, there is a positive relationship between accounting standard and quality financial reporting. The study expects with MPERS adoption can improve the quality of financial reporting in terms of relevance, timeliness, understandability, comparability, and reliability. Hence, the sixth hypothesis is as bellow:

H6. There is a relationship between MPERS with all components of financial reporting quality (relevance, timeline, understandability, comparability, reliability).

3.10 Control variables

A control variable is something that is maintained or restricted in a research study. It is a variable that is not of interest to the study's objectives but is controlled because it could affect the outcomes. Several control variables are added in this study such as industry specialisation and firm size.

Industry specialisation will include as control variables since sample of SMEs used in the study are from various industry. Different industry may portray different reporting behaviour depending on information disclosed. There is a growing literature that ties industry specialisation to the quality of financial reporting (Balsam et al, 2003). The investment patterns, employment, innovativeness, productivity, and long-term performance of an economy are all associated with industry specialisation or diversification. Industry specialisation is measured as the industry of the business.

A selection of control variables is implemented into the analysis to control for various firm characteristics. Each of the control variables represents a different aspect of the company's business activities. Whereas a firm's size may be a source of both economies and diseconomies of scale, the size variable was tasked with controlling for that as well. Consequently, this variable's positive and negative indicators may arise (Besanko and Braeutigam, 2011). The size of the firm has an important role to play because it can determine by the source of income, debt repayment and behaviour of the firm. In terms of the control variables, which are meant to capture the characteristics of various firm, whether the firm is large, it has broader sources of income, and the greater chance for debt repayment and the behaviour of the firm will be different with the small firm. The natural

log of total assets is included in the regression to control for the business size effect (Peasnell et al., 2005; Rahman and Ali,2006; Jaggi et al., 2007).

3.11 Model Specification

The independent variable - MPERS adoption (β1 Ad) namely described by indicators presentation and disclosure, going concern and consistency. The dependent variable is financial reporting quality represented by indicators- Relevance (REL), Timeliness (TI), Comparability (CO), Understandability (UN) and Reliability (RTY).

To assess the degree of relationship between the adoption of MPERS (independent variable) and financial reporting quality (dependent variable), a multiple regression model will be used. The model can be summarised as:

Financial reporting quality factors = α + β1 Ad + ε)

α = Alpha Constant parameter

β1 Ad = Beta Coefficient of the independent variable

ε= Probabilistic error term.

The model assesses financial reporting quality which cannot exist without MPERS adoption.

3.12 Variables Measurement

The dependent variable in this research was measured by financial reporting quality, whose indicators included - relevance, timeliness, understandability, comparability, and reliability, while independent variable represent by the whole MPERS adoption for SMEs

was measured by the compliances with MPERS for SMEs in financial accounting and reporting that measure by presentation and disclosure, going concern, and also consistency.

3.13 Presentation, Data Analysis, and Interpretation

The grouping and analysis of the respondents to the questionnaire will be carried out using one statistical tool to analyse the results. The researcher will quantitatively analyse data using Statistical Package Social Sciences (SPSS) version 20 as the tools to extract descriptive statistics, correlations, and regression on the relationship between adoption of MPERS and the quality of financial reporting. SPSS will be used as it has great capabilities to analyse humongous data in seconds and produce an infinite output of simple and sophisticated statistical results including pie charts, graphs, polygons, percentages, simple frequency distribution tables, cumulative frequencies, binomials, and other distributions. The analysis of variance (ANOVA), which has been used at some point, chi-square tests, correlation, regression analysis, statistical hypothesis tests, multivariate analysis, time series analysis, confidence interval estimation, estimates, multi-way comparison, fitness tests, contingency table analysis, and other high-level analyses could all be performed using this package. More explanation for background information and each objective for data analysis are stated as below:

3.13.1 Background Information

The background information of the respondents was determined using frequency. Frequency was helpful to understand which options was occur more or less often in the

dataset. Based on the indications in terms of frequency and percent, an item analysis revealed the number of times the value occurs.

3.13.2 Objective One: To Investigate the Extent MPERS Has Been Adopted

Objective One will be analysed using percentage frequencies of responses. The descriptive statistics category includes frequency analysis. Frequency in statistics refers to how frequently an event happens. Frequency Analysis is a crucial field of statistics that examines measures of central tendency, dispersion, and percentiles as well as the number of occurrences (frequency). Frequency makes it easier for the researcher to quickly search the full data set. It reveals if the observations are high or low as well as whether the respondents use the entire MPERS or only a part of it.

3.13.3 Objective Two: To Access the Financial Reporting Quality by SMEs

The questionnaires stated variables to examine using descriptive statistics of responses for Objective Two, which were then labelled using the 5 Likert Scale.

Table 3.1: 5 Likert Scale

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

According to the questionnaire, mean values of above 4 to 5 indicate strong levels of agreement with the statement, whilst mean values lower than 3 indicate high levels of disagreement with the statement.

3.13.4 Objective Three: To Ascertain the Relationship Between MPERS Adoption and the Financial Reporting Quality by SMEs

Correlation and regression analysis will be used for Objective Three. Correlation analysis will be used to determine the degree, strength, and direction of the relationship between MPERS adoption and financial reporting quality by SMEs. The extent to which SMEs quality of financial reporting influences MPERS adoption was evaluated using regression analysis.

In correlation, a multiple correlation coefficient was also utilised at a 5percent level of significance using a t-test. To determine the influence of the dependent variable on the independent variable, the regression analysis R2 (coefficient of determination) was used. Pearson's correlation co-efficiency was utilised to evaluate the relationship of MPERS adoption on SMEs' quality financial reporting. At all instances, the correlation coefficient is between -1 and 1, with 1 or -1 reflecting perfect correlation. A positive correlation specifies that the variables have a positive relation, whereas a negative correlation indicates that they have a negative relation. There is no relationship between the variables if the relationship value is close to 0. A positive correlation demonstrate that the variables have a positive relation, whereas a negative correlation shows that the variables have a negative relation. There is no relationship between the variables if the relationship value is close to 0.

3.14 Pilot Study

A pilot study is a brief feasibility study that is used to test various parts of techniques that will be used in a larger, more detailed, confirmatory research (Arain et al., 2010). Pilot

studies will help in collecting any missing parts, as well as before large-scale trial to determine viability. The primary objective of a pilot study is to prevent researchers from undertaking a large-scale study without proper knowledge of the methods proposed; in other words, a pilot study is conducted to avoid the circumstances of a fatal error in a study that is inefficient in terms of time and money (Polit and Beck, 2017). It is a testing process to certify that the quality of the research instrument (questionnaire) is clearly understood by the respondents by checking the directions, questions, and scale of items.

Conditions must be specified in advance for a successful pilot study. The researcher chooses to make changes to the study design and will depend on the achievement of certain conditions or proceed with the main study. In addition, from all these conditions, outcomes from the pilot study are defining (In, 2017):

1) Study termination

2) After adjusting the study's design, users can move onto the main study.

3) Not necessary for the design of the study to be changed, but needs detailed monitoring during the study processes; or

4) Can proceed without changing the design of the study

The pilot study provided data not only to determine sample size but also to evaluate all other characteristic of the main study while saving time and money for both researchers and participants. Before continuing with the pilot study, characteristics presented in the text must be clearly defined and displayed a significant degree of completion in order for the pilot study to fulfil its purpose. Moreover, even though a pilot study generates information that is important not only for the main study but also for other comparable studies, it is critical to provide thorough details on the feasibility of the research. (In, 2017). For this

study, a sample used for pilot study was 21 respondents. According to Saunders et al., (2007), the minimum number of participants for a pilot study is 10.

3.15 Reliability Analysis

Reliability is the level to which measurements are error free and produce accurate findings or the accuracy of a measuring method. Reliability refers to the element of how, by using an instrument to calculate anything more than once, so we could get the same response or not. If the same score is consistently given to individuals or items with similar values by a measuring tool or method, the instrument is considered accurate. The reliability of the study is, in simple terms, the level to which the research method develops stable and consistent outcome. Reliability includes the accuracy or reproducibility of test results, that is the degree to which relative constant deviation results of individuals on the same or parallel testing instruments can be predicted in test situations (Thanasegaran, 2009).

There are a variety of coefficients of reliability. The Cronbach's alpha, which is according to the average correlation of items, is more commonly used to determine whether the items are standardised or vice versa. If the standardisation of items is negative, the average covariance coefficient, which varies from 0 to1, is used. The optimum measure of reliability on questionnaire items was established in this study using Cronbach's α (the Greek letter alpha) reliability coefficient, which was taken as acceptable at 0.61 (Alhamadany, 2020).

From this study, the results from pilot study using SPSS for all independent variables (58 items) produced a Cronbach’s alpha of 0.97 (N = 21). For dependent variables, the results show the Cronbach’s alpha of 0.94 (N=21) for all 25 items. Therefore, reliability

tests on items for all concepts were conducted to ensure that these reliability figures were robust and healthy. Cronbach's alpha results that the reliability is at a very high level. Further, to further clarify the above reliability analysis, Table 3.2 below shows the overall reliability results on each of the concepts including the number of items.

Table 3.2: Reliability Analysis

No.	Concepts	Type	Number of Items	Cronbach's Alpha
1	Presentation and Disclosure	IV	8	0.75
	i. Information presented in financial statement			
	a) Statement of Financial Position	IV	14	0.95
	b) Statement of Comprehensive Income and Income Statement	IV	9	0.91
	c) Statement of Changes in Equity and Statement of Income and Retained Earnings	IV	10	0.94
	d) Statement of Cash Flow	IV	3	0.89
	e) Accounting Policies, Estimates, and Errors	IV	6	0.83
2	Going Concern	IV	2	0.82
3	Consistency	IV	6	0.85
4	Relevance	DV	5	0.84
5	Timeliness	DV	5	0.83
6	Comparability	DV	5	0.90
7	Understandability	DV	5	0.81
8	Reliability	DV	5	0.85

The test's total reliability score for 83 items (N = 21) was 0.94, which denotes an acceptable and very strong internal reliability.

3.16 Chapter Summary

This chapter has discussed the methods and procedures in conducting the study. This chapter begins with discussion about quantitative research method. Then, its focuses on study including the demographic study, research design and method, method and instrument for data collection, sample size, sampling techniques, questionnaire's structure, hypothesis, model specification, variable measurement, data analysis, pilot study, reliability analysis, and significant of expected finding.