UNIVERSITI TEKNOLOGI MARA

MASTER OF ACCOUNTANCY

MANAGERIAL BEHAVIORAL PROBLEM OF TRANSFER PRICING PRACTICE

-A DESCRIPTIVE STUDY IN TELEKOM MALAYSIA BERHAD

AIDA MARIA BTE HJ ISMAIL

99347209

A dissertation submitted in partial fulfillment of the requirements of Universiti Teknologi MARA for the degree of Master of Accountancy

November 2000

ACKNOWLEDGEMENT

In the name of Allah, The most Beneficent, The Most Merciful.

I would like to express my greatest thanks to several people who have help me direct or indirectly during this research period.

My special thanks to:

My dean, Prof Dr Juhari Samidi, Faculty of Accountancy, Universiti Teknologi MARA, for your patience, advice and guidance throughout the Master of Accountancy program.

My advisor, Prof. Madya Dr Ibrahim Kamal Abdul Rahman, Faculty of Accountancy, Universiti Teknologi MARA, for your guidance throughout this study. Your patience in guiding me is very valuable.

My coordinator, Dr Nafsiah Mohamed, Faculty of Accountancy, Universiti Teknologi MARA, for your assistance throughout my years in college.

My lecturer, Prof. Madya Dr. Normah Haji Omar, for your assistance and advice in completing this study.

Encik Nik Ahmad Faris and respondents in Telekom Malaysia, for their cooperation, time, participation and willingness to put up with my endless questioning in gathering the information for this paper.

ABSTRACT

Transfer pricing concerns both academics and practitioners. It is one of the most debated topics in management accounting because its rules are a potential source of conflict and the objectives set are hard to be achieved. Despite all this problem, it is very important to establish a good transfer pricing scheme or system in an organization as it is being used in global companies with sub-divisions located around the world.

Previous studies have introduced various theories in the search for a completely satisfactory transfer price system; still there is a divergence between the theory and practice. This divergence occurs because it gives less intention to the behavioral issues. That is why one of the major factors to be considered in any transfer pricing system is the feeling of the people in that system.

This study is looking at the behavioral problem among transfer pricing practitioner and tries to analyses and identify factors that contribute to this problem in Telekom Malaysia Berhad and does this problem influence the achievement of transfer pricing objectives, (i) Goal congruence, (ii) Performance appraisal and (iii) Divisional autonomy.

In doing so, the primary researcher were done in the form of questionnaires and interviews with the relevant personnel and the key people either directly or indirectly involved with transfer pricing practice. The result of the study indicated that the degree of involvement of top management seems to be the major contributor to managerial behavioral problem. It influences members' attitudes

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Cost accounting and Management Control Systems were originally designed and operated to provide useful information for manager's planning and decision-making. In today's modern business, costing becomes very significant for a company's competitive advantage to survive in the industry. This has been stressed by Porter's Five Competitive Forces (Porter, 1985), which presents the link between Competitive Structure and Corporate Performance Perspectives as in Figure 1 below:

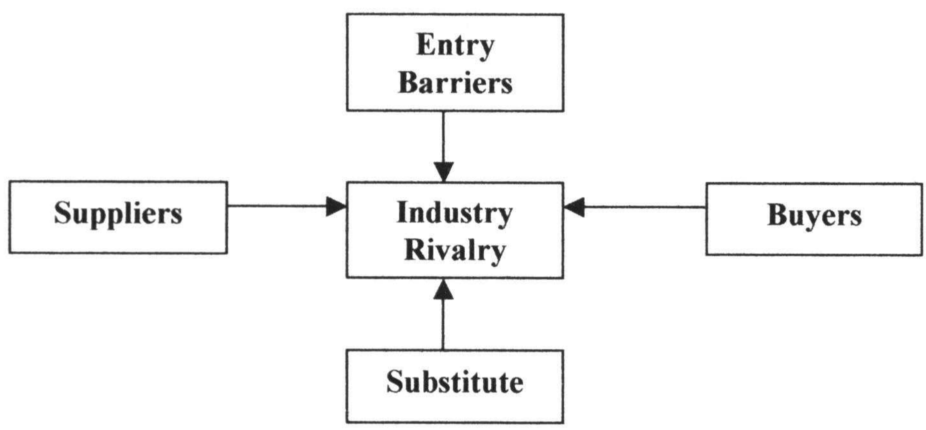

Figure 1: Competitive Forces of Industry Structure

These five forces govern corporate performance because they influence prices, quantities sold, costs, investment and the riskiness of firms in an