

CHAPTER 1 INTRODUCTION

1.1 Purpose and Significance of this Study

Malaysia has enjoyed marvelous economic growth and development in last decade. Our government plays an important role as catalyst in the overall development. It has been active in promoting and encouraging the participation of private sectors in the development by providing various incentives. Many corporations were formed to tap the economic opportunities. For example, a total of 264 companies were listed in the second board of the Kuala Lumpur Stock Exchange between 1989 and 1997 when the new listing regulation was implemented that enable the smaller paid up capital companies to raise fund through the open market. The new listing requirement has allowed corporations with shorter/lower profit track record and lower issued and paid up capital to go for listing. Skyscrapers, infrastructures and mega projects were constructed, new businesses were introduced, and corporations were expanding rapidly, most of these were funded by public moneys.

During good times, not many people were concerned about the fundamentals of growth and the consequences in the long run. The stakeholders only judged performances of corporations from their bottomlines or

profitability. There were few challenges to corporate board's prerogative to run the company, no demand for independent supervision or disclosure, no questioning of corporate power and legitimacy, and little interest in involvement or participation in management decisions.

The economic turmoil that started in the second half of 1997 has revealed how some of the corporations were poorly managed. According to reports from the Registrar of Companies (ROC), a total of 679 companies (all categories) had wound up in 1997 and another 247 (all categories) in the first sixth month of 1998 (The Star, 14/6/98). The numbers of litigation cases among the listed corporations are increasing due to their failure to meet their debt commitment. The shareholders are disappointed because some of the companies they invested failed and suffered great losses.

Poor corporate governance and a lack of transparency were said to have attributed to corporate failure. For example, the collapsed of Sime Bank indicated the lack of transparency and poor corporate governance in some local corporations. It was believed that directors sitting on the corporate boards did not really understand or carry out their duties and responsibilities.

Therefore this study is proposed to explore study of Malaysian corporate governance, especially on matters concerning the roles, responsibilities and control of board activities under the local regulation and public policies. Some references were made on western corporate governance development as well on the development of local corporate activities. From this study, some observations are made. Recommendations on further studies in the same subject are put forward to enhance the corporate governance research on our local scenario.

1.2 Scope of the Study

The concept of stakeholder in the corporate governance framework covers a very vast aspect such as shareholders, lenders of moneys, business partners, employees, suppliers, customers, government and community where the corporation operates in. However in this study, the definition of stakeholder is only confined to shareholders in specific and how to safeguard their interests. This is due to shareholders' contribution in capital but no direct involvement in a corporation. They empowered the company's board to run the company for them, therefore the board is primarily accountable to the shareholders.

The Companies Act 1965 is used as key reference in discussion of roles, responsibilities and control of company boards as the boards' roles and responsibilities are stipulated in this law. The Act is administrated by Registrar

of Companies under the Ministry of Domestic Trade and Consumer Affairs, it regulates the activities of corporations, duties and responsibilities of company directors. However the scope of discussion for this study is only confined to public listed companies in Malaysia as issues of governance are most surfaced in relationship of managers and shareholders.

1.3 Limitation of the Study

In view of the sensitivity in this topic, it was hard to get feedback for the survey. Many audiences were being approached and explained on the purpose of study but later declined to be interviewed.

Due to the limitation of time and resources, the discussion of this paper is based mainly on secondary data (newspaper clipping, reports and literature from both local and overseas) and limited number of personal interviews with respondents (primary data). The respondents were asked about their perceived duties of directors and how their boards carried out their duties as board members. Reviews on some literature were made. It endeavors to give an overview on the duties, responsibilities, accountabilities and some issues related to corporate governance in local corporate scene.

1.5 Organization of study

This paper is presented in five chapters. Chapter One provides a brief introduction on this study that covers the purpose of study, scope and limitation of study.

Chapter two draws on some literature reviews from western and local articles related to the development of organizations, definition of 'corporate governance', issues on corporate governance and models of corporate governance. It is aimed to provide some basic understanding for the term of corporate governance as this term is relatively new to some readers.

Chapter three presents the roles and responsibilities of the board of director in Malaysia. It discusses the structure of corporate governance in local context, legislative framework and role plays by Malaysian Institute of Corporate Governance (MICG) in promoting the awareness of corporate governance and its effort in formulating a "Code of Best Practice".

Both Chapter Four and Chapter Five enumerate the research methodology and research results.

The last chapter, Chapter six discusses on the research result and provides recommendation based on the research findings.