CHAPTER 6 DISCUSSIONS, RECOMMENDATIONS & CONCLUSION

This chapter will raise some issues based on the research results in previous chapter. Through the discussions, some recommendations is put forward for the objective to conduct further study in the same topic and enhancement of corporate governance in our local society.

6.1 Discussions
From the research findings, the following issues are listed out for discussions:-

6.11 Check and balance of power
The BODs (led by Chairman) is supposed to govern the management (led CEO). In situation where Chairman and CEO posts are held by the same person, he/she will possess very strong control / influence in determining flow of information, agenda for meeting and decision making. In theory, the independent Non-Executive Directors should have greater control in running the board should the Chairman/CEO posts held by the same person. However from the ten organizations interviewed, nine out of ten organizations are having less than three independent NEDs, and hence they are the minority compared to the total board size. Whether they have the necessary support and power to carry out this checks and balances duty is questionable.

6.12 Human limitation
As a board member, he/she is supposed to be the 'think tanker' in directing, formulating the strategies for its corporation and closely monitor the management performances. It is questionable whether a board member could be fully committed, perform properly his/her duties and accountable to all his/her shareholders while holding many positions. What should be a limit number of directorships that could be assumed by an individual?
6.13 The selection of board members

The research finding indicated that the CEO has active involvement and strong influential in the selection of board members. In theory the board is playing a primary role to monitor the management which led by the CEO. In the case where the CEO involve in appointment of the Board, it reflects that the management selects its supervisors (governors), in which it would not add substance to the principle of 'check and balance'.

A majority of the corporations interviewed did not have the pre-determined selection criteria of corporate leaders based on their long term perspective of corporations. A non-professional and subjective selection of board members could result to the candidates lacking of qualification and industry specific knowhow / experience to competently evaluate strategies, policies, changes and development for corporation. It is of crucial importance when the corporations face crisis.

If a board member were selected primarily on the basis of his/her close affinity or friendship with the CEO or Chairman, he/she may find himself/herself obligated to agree with the decision made by his/her “friend” or reluctant to critic/question the leadership of his/her “friend”. It may lead to insufficient of information flow or openness in the board.

6.14 Term of appointment

All the appointment of board member should have a pre-determined term / duration. The board member will be more cautious/ committed in carry out his/her duties because they will be appraised for renewal of contract. An appointment term of three years with yearly performance review is proposed.
6.15 Orientation on new appointment

A full understanding on the corporation’s background, business activities, and their expected contributions, roles and responsibilities are crucial for the board to function well. Board members would be able to contribute in formulating strategies for the success of corporation, only when they are fully understand what precisely is their company’s core expertise, what are the reasonable long and short term goals and what are the key drivers of profitability/competitive advantage. Therefore it is important for all corporations to provide comprehensive briefing to its new board.

The board’s main function is to determine the aims or strategy for the corporation. But from the survey of involvement of board in setting strategy for corporation, it is sadly to show that there are boards who are ignorant in carry out this duty (two from ten organization interviewed).

If a new member find himself/herself is unable to commit or contribute to the corporation or unable to meet the expectation of the new board, he/she should not take up the appointment.

6.16 Evaluation of individual board performance

Yearly formal evaluation mechanism should be established to ensure checks and balances in the board. The primary purpose of formal evaluation on individual board member is to enhance not only the performance, effectiveness and contributions of each director, but also to improve the effectiveness of board as a whole in fulfilling its role. The successful dynamics of a board depends on a combination of skills. The evaluation process identifies individual directors’ special attributes and their particular contribution to board deliberations.
Evaluation can be by peers or by external consultant. All the directors should be informed on what criteria and checklist use for the evaluation to generate transparency in the process. Evaluation process will also help to identify what type training is required to further improve the effectiveness of a board.

6.17 Increase the frequencies of board meetings
The board members assume heavy responsibility to ensure their corporation's business success. It is doubtful if the board only meets 4-6 times per year and for 2-3 hours, do they really have time to go into details to discuss and brainstorm issues/problems faced by the company? Do they able to allocate the company's resources for the best interests of their shareholders?

The number of board meetings should be increased (with purpose) to enable the board to closely monitor the overall performance of corporation. to carry out timely remedy should there is any flaws in planning and formulate strategic decision for creating competitive advantage in the dynamic business environment.

6.18 Composition of audit committee
In one of the corporation interviewed, one of its audit committee members (three-member committee) assumed by its Managing Director. Since the Managing Director is very much involved in the daily operations of business and made decisions in most of the transactions, his presence might influence the other members to carry out their duty 'neutrally' - defeat the purpose of checks and balance and transparency in information.

The perceived usefulness and contributions of audit committee is to ensure that the financial statements published by a firm reflect a 'true' and 'fair' view of the
firm's financial position. The audit committee should be left independence to carry out its functions and judgement without 'control'.

In the corporations interviewed, majority of their audit committees only met 3 - 4 times a year. It is questionable whether do they have sufficient time to carry out their functions and responsibilities as mandated by their shareholders?

6.19 Board remuneration
Methods used for determined remuneration for the boards in the corporations interviewed did not consider or link the individual director's performance and contribution to their corporations. It may encourage shirking among the directors.

No disclosure of payment made to the Chairman, CEO and member of BODs may lead to abuse of power and opportunism.

Mechanism for better remuneration formulation needs to be developed to link the Board members' compensation to their performance, and generate transparency in determining the remuneration policy.

6.2 Recommendations for Improving of Corporate Governance in Malaysia
From the study of this topic, some recommendations are made for better improvement of corporate governance practices:-
6.21 Committees in the Board

Besides audit committee, which is required by the KLSE regulation, corporate board should form various committees to carry out different tasks for the objective of checks and balances of board, and at the same time generate greater contributions for the success of corporations. For examples:-

(a) A nomination committee to develop criteria on selection of best candidates to meet the corporate strategic business development and vision. At the same time this committee will also look into the succession plan for the CEO and senior management.

(b) An evaluation committee to develop checklist on evaluating the performance of Chairman, CEO, Executive Director and Non-Executive Director. Formal periodical evaluation will be replacing the informal evaluation, conducted with the coordination from the evaluation committee. Individual member will be made known criteria of appraisal and will be provided feedback on the result to generate transparency in the mechanism.

(c) Remuneration committee to develop remuneration package to the board members link to their performance and market standards & etc. This is aimed to keep the best leader for the corporation, ensuring transparency and preventing opportunism.

(d) IT committee is a need to enable the corporation to keep abreast with the IT development as to be competitive in this new business world. The function of the IT committee is to adopt new ideas and IT development in the business process re-engineering and to create competitive edge for the corporations. Twenty first century is an information technology era, this committee plays a crucial role in preparing or moulding the corporation for new challenges. The immediate task for this committee is to ensure its corporation has made sufficient preparation for encountering the Y2K challenge.
6.22 Participation of Independent Non-Executive Directors

The independence non-executives need to change their mindset to assume heavier responsibilities to carry out control and checks in the board through running the various committees. Before this, they were merely playing a secondary role. Legally, both the executive directors and non-executive directors are sharing the equal responsibilities to their corporations and shareholders.

The independence non-executive directors could play a more active role by participate in the various board committees and improve their knowledge in legal, financial and business through continuous learning.

6.23 Education for Board Members

There are many existing board members who still do not fully understand their roles and responsibilities as company board members. Education program designed in laymen term and multilingual (B. Melayu, Mandarin, Tamil and dialects) is essential to educate them of their role and responsibilities. due to varies in education qualification and background.

For new appointment of board member, training and briefing on their duty need to be provided. MICG is hoped to conduct the relevant courses for its members and public.

It is also suggested the “Corporate Governance” to be offered as a subject in tertiary institution to prepare/ enhance the management student’s knowledge in early stage.

6.24 Limit on the number of directorships

Human being capability is limited. Step taken to limit the number of directorships assume by a board member is a wise decision taken by the regulator to prevent
'professional board member who only keen in director fees'. The recent announcement by the Second Finance Minister to limit the number of directorships hold by an individual board member for public listed companies to a maximum of five boards is towards improving the effectiveness of corporate board.

It is suggested that the number of full-time CEO, Chairman and Executive Director for big corporations to be further reduced according to the size of corporations and complexity of business nature. For example, a CEO who service a global corporation which is running huge funds and in very diversify businesses need to delicate more time and care to the business operations, he/she should only serve one corporation on full time basis as the business is exposed to greater risks and need tighter monitoring.

6.25 Education to the shareholders

The shareholders should be educated on how to protect their interests and right attitude to invest. They should learn analytical skills in their investment rather then follow the hear say attitude (where they could be easily exploit). Corporate should establish the Investor Relations Bureau to assist the shareholders to obtain the necessary information in their investment.

6.26 Enhance the role of Company Secretary

Company secretary is the closest party in providing advice to board in compliance to law and regulation. The company secretary should have the courage to correct the board's practice should it is in the wrong track. The company secretary should provide in-house briefing to the board on new regulation and implication in the practices, or the company secretary may recommend to the board members on education courses offer in market to enhance their skill as board.
6.27 Enforcement from the Regulators

The regulators should have sufficient numbers of enforcers and be consistent in the interpretation of the laws. Old laws need to be amended according the new dynamic business environment.

6.3 Suggestions for Further Study on Corporate Governance

The following area of research is suggested for further study in the same topic:

(a) Corporate Governance in KLSE main board companies
(b) Corporate Governance in KLSE second board companies
(c) Corporate Governance in Family-owned Public Listed Companies
(d) Corporate Governance in Government owned Corporations
(e) Corporate Governance of the Statutory Bodies (SOCSO, EPF, Tourism Malaysia & etc.)
(f) Corporate Governance of the Statutory Bodies owned subsidiaries
(g) Selection Process of Independence Non-Executives & Their Roles
(h) How to formulate succession plan for a corporation?
(l) What are the types of training required by new appointed Director?

6.4 Conclusion

The corporate governance framework for Malaysia is three fold: the government sets the board framework of rules within which business operates; the corporate sector takes primary responsibility for establishing and implementing appropriate standard of conduct; and investors play a crucial role in ensuring the accountability of companies. Therefore every party needs to play its role to ensure good corporate governance in our country for meeting the international standard and to enable our corporations to be efficient and competitive as one of the player in the global business arena.