6.0 Conclusion and Recommendations

6.1 Summary and Recommendations

As indicated in Section 5.2 of the report the extent of compliance to the Principles Statement of the Code is only 46% of the total 13 principles proposed by the Code. The Assessment indicates that the following principles may be more effectively applied:

Principle	Description
AI	The Board
AIII	Supply of Information
AIV	Appointments to the Board
BI	The Level and Make-Up of Remuneration
BII	Procedure - Remuneration
BIII	Disclosure - Remuneration
DII	Internal Control

6.1.1 Principles May be Further Strengthened

Principles	***Details of Principle – according to the Code***	***Observation***
1. AI – The Board	*Every listed company should be headed by an effective board, which should lead and control the Company.*	This principle relates to Best Practices AAI, AAII, AAXII, AAXIII, AAXIV, AAXV, AAXV1 and AAXXII. There are certain areas whereby the effectiveness of the Board as a whole may be enhanced. **Recommendations** The areas which may be improved upon include : • Adopting the 6 principal responsibilities of the Board (Best Practice AAI), as described in Section 5.3.2;

		• Establishing an agreed procedure for directors to take independent professional advice in the furtherance of their duties. (Best Practice AAXX); • Adopting a formal policy on training directors, beyond the training programmes prescribed by the KLSE, i.e. the MAP and the Continuing Education Programme ("CEP"). Such training may be conducted internally or by external consultants, focusing on the specific needs of executive directors and non-executive directors. (Best Practice AA XIII); and • Defining the criteria for directors' independence in meeting the general rule under the RLR, which provides that "*an independent director is a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement*". (Best Practice AA III).
2. AIII – Supply of Information	*The Board should be supplied in a timely fashion with information in a form and of a quality appropriate to enable it to discharge its duties.*	This principle relates to Best Practices AAXVII, AAXVIII, AAXIX and AAXX. Management has an obligation to provide the Board with appropriate and timely information but the information provided by management is unlikely to be enough in all circumstances. Observed that operational and non-financial information such as customer satisfaction, service quality, market share and market reaction were not being supplied in a comprehensive manner to the Board.

		Recommendations Since the information furnished is in favour of financial information, it is recommended that management to look into avenues, which would supply the Board with non-financial information on a timely basis. An example includes having operational information from weekly management meetings on a quarterly reporting. The salient features of the meetings may then be tabled to the Board.
3. AIV – Appointments to the Board	*There should be a formal and transparent procedure for the appointment of new directors to the Board.*	This principle relates to Best Practices AAVIII to AAXI. There is currently no formal and transparent procedure for the appointment of new directors to the board other than the mechanism in the Memorandum and Articles of Association. **Recommendations** Board should formally adopt a term of reference for Nominating Committee members. This will facilitate the Nominating Committee to discharge its duties effectively.

4. BI – ***The Level and Make-up of Remuneration***	*Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance, in the case of executive directors. In the case of non-executive directors, the level of remuneration should reflect the experience and level of responsibilities undertaken by the particular non-executive concerned.*	This principle relates to Best Practices AAXXIV. There is no structured mechanism linking the remuneration levels of the non-executive directors to the experience and level of responsibilities undertaken by the particular non-executive director. In addition, there is an absence of a formal and transparent remuneration structure which links corporate and individual performance to the executive directors. **Recommendations** It is recommended: • that a mechanism be developed and adopted, either internally or with consultation with external advisers. • the Board in developing and adopting the policy should consider the level of remuneration and structure of comparable companies within the industry. The remuneration structure of the executive director should be linked to corporate and individual performance. The following method of linking pay to performance may be considered: • develop performance criteria i.e. key performance indicators that tie to directors' performance and efforts, rather than general market fluctuations (e.g., total shareholder return, earnings per share). • to link annual base salary and annual bonus of executive directors with pre-tax profit margins and return on equity. • to link long term compensation such as stock options with total cumulative shareholder return.

		• Consider factors such as net income, earnings per share and stock price appreciation. • Benchmark against a comparator group and determine how comparator companies may be used. Selected comparator companies should be in similar industries and/or those with financial criteria, e.g. turnover or market capitalisation.
5. BII – Procedure - Remuneration	*Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.*	This principle relates to Best Practices AAXXIV. Observed that there is no formal and transparent mechanism with respect to determining the remuneration of the directors. **Recommendations** It is recommended that a mechanism be adopted and formally endorsed by the Remuneration Committee.
6. BIII- Disclosure - Remuneration	*The company's Annual Report should contain details of the remuneration of each director.*	This principle relates to Best Practices AAXXIV. Most of the selected companies have made the requisite disclosures in the manner stipulated in Appendix 9C of the RLR in the Annual Report for FYE 2001. However, the requirement to disclose the details of the remuneration of each director as per Principle B III of the Code was not fulfilled. **Recommendations** The Board may elect not to disclose each director's remuneration separately, in which case the reasons for departing from the Code may be explained in the annual report.

7. DII – Internal Control	*The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.*	This Principle relates to Best Practices BBII, BBVII and BBVIII. The Principle requires the Board to maintain a sound system of internal controls within company. Observed that a primary focus is only given to financial controls. Guidance as to this can be derived from the 'Statement of Internal Controls – Guidance for Directors of Public Listed Companies' ('Guidance') issued by the Task Force on Internal Controls in February 2001. **<u>Recommendations</u>** A structured risk management system should be adopted within company. Such a system would also form the basis behind the generation of the Statement on Internal Control. The Guidance highlights the salient elements behind a sound system of internal control, namely the following:- • Risk assessment framework and activities • Control activities • Information and communications processes • Processes for monitoring the continuing adequacy and integrity of the system of internal control

6.1.2 Principles Effectively Applied

Principle	*Details of Principle – according to the Code*	*Observation*
1. A II- Board Balance	*The board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision making.*	This Principle relates to Best Practices AAIII to AAV. As nearest to 1/3rd of the Board members are currently considered independent non-executive directors are technically in compliance with the requirement. Technically most of the selected companies are in compliance with Principle AII. The Board should consider defining its own criteria in determining which directors might be considered independent.
2. AV- Re-election at a regular interval	*All directors should be required to submit themselves for re-election at regular intervals and at least every three years.*	Pursuant to the Articles of Association of the selected companies, the directors submit themselves for re-election at regular intervals and at least every three years.

3. C I – Dialogue between Companies and Investors	*Companies and institutional shareholders should each be ready, where applicable to enter into a dialogue based on the mutual understanding of objectives.*	Principles CI and CII are closely related to Best Practice CCI. Observed that a comprehensive dialogue with shareholders takes place during the AGM. The AGM offers a forum for discussion for institutional as well as private shareholders.
4. C II – The AGM	*Companies should use the AGM to communicate with private investors and encourage their participation.*	Principles CI and CII are closely related to Best Practice CCI. Observed that a comprehensive dialogue with shareholders takes place during the AGM. The AGM offers a forum for discussion for institutional as well as private shareholders.
5. D I – Financial Reporting	*The Board should present a balanced and understandable assessment of the company's position and prospects.*	This principle relates to Best Practices BBI to BBVIII. From the perusal of Annual Reports of the selected companies, it appears that the Principle is effectively applied.
6. DIII – Relationship with the Auditors	*The Board should establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors.*	This principle relates to Best Practices BBII. The Audit Committee terms of reference formalises the relationship with the auditors. The Audit Committee invites the external auditors to attend the meetings at least on a quarterly basis. The external auditors will brief the audit committee of the results of each quarter and will present any points for improvement and development of any new accounting treatments or disclosures which are enforced by the relevant authorities for their early preparation.

6.2 Suggestion for Additional Research

Additional research relating to CG and its importance can be carried out in the following areas:

- A study to measure the effectiveness and usefulness of CG practices.
- A study to analyse whether the compliance to CG practices are reflected in the share price of the respective company. Is there a premium developed by the market for a good CG practices.
- A study on the perception of CG by the institution investors (both local and foreign investors).
- A study to analyse the existing CG legal framework, whether it is sufficient to establish investors' confidence in the Malaysian capital market.
- A study to analyse and compare the level of CG practices between countries (especially among Asian countries).

6.3 Implication of the Research

The research paper reflects the extent of compliance of each Principal Statement and Best Practices among the selected listed companies. The recommendations outlined in the Section 6.1 are useful for KLSE member companies that are yet to comply with the Code.

This research is about good CG, helping the Board to equip itself to discharge its increasingly onerous responsibilities, coping with the uneasy interface between the company's Board and Chief Executive Officer, and above all, combining business with ethics. Companies that act with foresight in this emerging scenario will be truly better armed for the tough competitive future ahead than those that dismiss such issues as of no immediate relevance.

Besides, the management of listed companies, this research can be benefited by the following group who are directly involved in the setting up the framework of the CG (i.e. SC, KLSE, Registrar of Companies, Malaysian Institute of Accountant, Malaysian Institute of Certified Public Accountant, Malaysian Institute of Corporate Governance, The Malaysian Association of the Institute of Chartered Secretary and Administrators and etc).

6.4 Conclusion

The responsibility of managing an effective board is increasingly dependent on the non-executive directors, independent directors, internal and external auditors; and company secretaries. Together, they are now expected to make valuable contributions to the company especially through their role in CG.

The importance of directors, auditors and company secretaries are found in their numerous involvements in the various committees as set out in the Code. Increasingly, venture capitals and other institutional investors insist on placing a greater number of non-executive independent directors on the Board to keep an eye on their investments.

Statutory regulation alone cannot bring about the good management of an effective company board. Ultimately, it requires a combination of regulation by authorities and self-regulation by industry participants. The directors, auditors and company secretaries being external and independent expert in these areas, have an increasingly important role to assist in the management of an effective Board.