

### **3. RESEARCH RESULTS**

#### **3.1 Summary Of Research Results**

There are two comparative analyses to be made:

- Code of CG practices between countries
- Compliance of Malaysian KLSE-Listed companies to the Malaysian Code of Corporate Governance and Best Practices.

#### **3.2 Analysis of Code of CG Practices Between Countries**

##### **3.2.1 Methodology**

World Bank has listed codes of corporate governance, and best practices around the world. It includes practices in developed markets such as United States, UK, Germany, Japan, other European communities, Canada, and Australia. Another listing by the European Corporate Governance Network (ECGN) includes best practices from developing and emerging markets in South America and Asia supports the World Bank listing.

**Table 1** in **Appendix 1** shows the comparison between the Corporate Governance principles of developed markets such as United Kingdom, Germany, and the US (General Motors Board Guidelines developed by GM) against that of Malaysia. The comparison were broken down into the three main aspects of Corporate Governance principles:

- Board of Directors
- Shareholders (Rights of)
- Accountability and Audit.

### 3.2.2 Results

As a whole the Malaysian Code of Corporate Governance can be seen to be an exact duplicate of the UK's. The study also shows the following results:

#### A. Board of Directors

- i. The Malaysian CG principles clearly spell out that every listed company should be headed by an effective board. The US CG Principles added that in addition to fulfilling its obligations for increased stockholder value, the Board has responsibility to its customers, employees, suppliers and to the communities where it operates.
- ii. The US CG Principle does not cover the need for a formal and transparent for the appointment of directors to the board.
- iii. The US CG Principle does not cover the need for a disclosure regarding compensation and director assessment. The Malaysian CG principles states that the company's annual report should contain details of the remuneration of each director.

#### B. Shareholders

- iv. The Malaysian CG code advises the considered use of shareholders' votes while the US CG Principle does not cover this area.

#### C. Accountability and Audit

- v. The Malaysian CG code does not cover the statutory and professional requirement that external auditors make independent report to shareholders.

- vi. The US CG Principle generally does not cover aspects of accountability and audit.

**3.3 Analysis of Actual CG Practices of Malaysian KLSE-Listed Companies**

**3.3.1 Methodology**

**Appendix 2** shows the format that is used to assist in deriving the percentage of compliance KLSE-Listed companies to the Malaysian Code of CG Principles and Practices. The method is by comparing the corporate information in the Annual Company Report 2001 or 2002 to the requirements of the Malaysian Code of CG Principles and Practices. The Annual Reports were downloaded from KLSE website.

**3.3.2 Sample**

The KLSE categorises the listed companies into two boards: Main Board, and the Second Board. **Table 2** below shows the total number of companies listed as of 30<sup>th</sup> August 2002.

Year	Main Board	Second Board	Total
2001	520	292	812
2000	498	297	795

**Table 2: Listing of KLSE-Listed Companies** (Source: <http://biz.thestar.com.my/business/>)

To ensure that annual reports 2001 or 2002 is available, companies listed in year 2000 were identified. A total population of 795 for companies listed in 2000 was deemed suitable for this purpose. For this total population, through accepted mathematical formulas, at **95% confidence level** and a **margin of error of 4.5%**, the sample size of 38% of the total population or 302 is required. Through a computer generated random sampling, 302 listed companies were identified and studied..

### 3.3.3 Results

The result in **Appendix 3** shows that the listed companies exhibits a high degree of compliance to the Malaysian Code of Corporate Governance and Best Practices except for the following:

i. Effectiveness Board of Directors

The average number of Board meetings is 5 meetings per year. The percentage of companies holdings more than average number of Board meetings is 59% or 178. The percentage of companies holdings less than average number of Board meetings is 41% or 124.

ii. Size of the Board

The average size of the BOD is 8. The percentage of companies whose BOD size is more than or equal to the average is 45% or 136. The percentage of companies whose BOD size is less than or equal to the average is 55% or 166.

iii. Board Balance - Number of Independent Directors

The average number of Independent Non-Executive Directors in a Board is 3. Percentage of companies whose number of Independent Non-Executive Directors is more than or equal to the average is 96% or 291. The percentage of companies whose number of Independent Non-Executive is less than or equal to the average is 4% or 11. The percentage of companies whose number of Independent Non-Executive Directors is more than or equal to one third of the Board 84% or 254. The

percentage of companies whose number of Independent Non-Executive is less than one third of the Board 16% or 48. The percentage of companies whose number of Independent Non-Executive Directors complied to the KLSE Listing Requirement 74% or 223.

iv. Division of Responsibilities between Chairman and CEO

The percentage of companies who complied is 84% or 255. The percentage of companies who complied does not comply is 16% or 47.

v. Appointments to the Board - Nomination Committee

The percentage of companies who has formed Nomination Committee is 65% or 197. The percentage of companies who has not formed Nomination Committee is 35% or 105.

vi. Director's Remuneration - Remuneration Committee

The percentage of companies who has formed Remuneration Committee is 68% or 204. The percentage of companies who has not formed Remuneration Committee is 32% or 98.

vii. Internal Control

The percentage of companies who has established Internal Audit Department is 67% or 202. The percentage of companies who has not established Internal Audit Department is 33% or 100.