4. CONCLUSION AND RECOMMENDATIONS

4.1 Summary and Conclusions

The Malaysian Code of Corporate Governance attempts at instilling a high level of confidence in investors that their investment will not be frittered away by companies with bad management practices. Spurred by the Asian financial crisis and an increasing recognition that global commerce requires rules that are more alike than different, concepts governing corporate disclosure and corporate transactions, as well as generally accepted accounting principles, is serving as models for nations around the world.

The findings of this study do not conclusively prove that the standard of compliance to the Malaysian Code of Corporate Governance by the KLSE-Listed companies is high enough to instil the level of confidence required. Although the percentage achieved for most of the practices are commendable, it did not significantly prove that the same is true for a number of critical practices.

4.2 Overview of Study

The Malaysian Code of Corporate Governance essentially aims to set out principles and best practices on structures and processes that companies may use in their operations towards achieving the optimal governance framework. These structures and processes include issues such as the composition of the board, procedures for recruiting new directors, remuneration of directors, the use of board committees, their mandates and their activities.
The recommendations set out in the Malaysian Corporate Governance Code allows for a more constructive and flexible response to raise standards in corporate governance as opposed to a response of a statute or regulation. It is in recognition of the fact that there are aspects of corporate governance where statutory regulation, is necessary and others where self-regulation, complemented by market regulation is more appropriate.

4.3 Interpretation of Major Findings

4.3.1 Board Meetings

In a normal business cycle Board members usually scheduled 4 meetings a year. This is scheduled to enable discussion amongst Board members prior to the release of quarterly results. For a Board to exercise effectiveness however, companies have meetings whereby the Board deliberates on major issues such as strategies and budgetary considerations for new investments. Hence the data shows that the Board should meet for a minimum of 5 (five) meetings per year.

4.3.2 Board Balance - High Number of BOD Composition

Companies with more than average number of Board members aims at seeking diverse skills. One of the requirements of the Audit Committee is that it should comprise not fewer than 3 members of whom the majority must be independent directors. The KLSE Listing Requirement also states that at least two directors or one third of the BOD, whichever is higher, are independent directors. KLSE Listing requirement also states that members of the Audit Committee shall not have any family relationship with one another.

4.3.3 Internal Audit Function

Page 22 of 67
Companies that does not comply to the accepted notion of having an internal audit department performing the internal audit function generally falls into two categories:

i. an internal audit function is a newly introduced function that did not exist prior to the requirements of the Code of CG, hence the setting up of another department within the company

ii. an internal audit function is a newly introduced function that did not exist prior to the requirements of the Code of CG, hence the outsourcing of the function to a third party, either a subsidiary or affiliate company, or to a firm specialising in auditing works.

In the post-NEP decades, two categories of companies have become dominant. The first category are the large privatised entities such as Tenaga Nasional, Telekom Malaysia, Petronas Dagangan, etc., The second category comprises of smaller-sized companies which are mainly owner-dominated enterprises, seeking new avenues for raising capital. The latter usually outsource their internal audit function to external firm rather than establishing an internal audit department within the company.

4.4 Contributions of Study

Corporate governance tends to come to prominence during the "bust" period of the economic cycle as the pendulum swings from the previous "boom". As a result corporate governance typically is viewed as a conformance matter, with less attention being paid to the strategic and performance roles of boards. This is happening today in Asia, where poor corporate governance is seen to be a significant contributor to the Asian financial crisis. Self-regulation is key to better corporate
management. Companies with internal audit department shows more emphasis on internal controls. In view of this, it is envisaged that the companies will increase more audit efforts. As such, institutions of higher education and other professional bodies may likely concentrate a higher proportion of their annual budget in this areas.

4.5 Limitations of Study

However what the study cannot show is whether companies with poor self-regulation by the lack of an internal audit department tends to suffer in any eventuality.

4.6 Suggestions for Additional Research

The following are suggested for future research:

i. Do different board structures, dual or combined roles of Chairman and CEO, director qualifications and the number and independence of non-executive directors explain variations in corporate performance, growth, or survival?

ii. Is there evidence that the structure or qualifications of boards are connected with subsequent performance?

4.7 Implications

The above-proposed research may enable companies to fine-tune their search for capable Board members with the right skills and experience rather that planting a "yes" individual on Board.

4.8 Conclusion

The findings of this study do not conclusively prove that the compliance standards of the KLSE-Listed companies to the Malaysian Code of Corporate Governance and Best Practices
are in able to answer the research questions posed earlier. Although some measure as to how the Malaysian Code of Corporate Governance compare against actual corporate practices can be seen, it cannot be determine whether the more open the economy, the higher the maturity level of corporate governance.