

Good Corporate Governance Towards a Competitive Advantage.

An Article by Amos Law



Often, in the constant pursuit for higher profits and better returns to shareholders, businesses tend to lose sight of balancing the interest of corporate bottom lines against the needs of other stakeholders such as employees, customers, suppliers, society and the communities in which the companies conduct their business.

However, this may be counterproductive as good corporate governance could be crucial to the achievement of a competitive advantage and profitability based on long-term thinking. The accumulated evidence globally is that improved profits and performance follow the pursuit of purpose – the clearly articulated and self-conscious insistence, shared by managers and owners alike – that a company first exists to promote societal and human betterment.*

The Securities Commission Malaysia (SC) released the new Malaysian Code on Corporate Governance (MCCG) in April 2017 in which it defined corporate governance as *“the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders.”***

The new MCCG takes on a new approach to promote greater internalisation of corporate governance culture. It provides flexibility and proportionality in the application of certain best practices where certain practices are applicable to Large Companies – defined as companies on the FTSE Bursa Malaysia Top 100 Index or companies with market capitalisation of RM2 billion and above at the start of the financial year. Other listed companies may consider adopting the practices identified for Large Companies if they aspire to achieve greater excellence in corporate governance.

The SC is also encouraging non-listed entities including state-owned enterprises, small and medium enterprises (SMEs) and licensed intermediaries to embrace this code on corporate governance to enhance accountability, transparency and sustainability.**

* *Financial Times*

** *Securities Commission Malaysia, Malaysian Code on Corporate Governance, April 2017.*

Key features of the new Malaysian Code on Corporate Governance.

Through the adoption of the Comply, Apply and Report (CARE) approach, the new Code encourages companies to clearly identify the thought process involved in the practice of good corporate governance. Applying the principles and practices of the new MCCG involves a mind-set and culture change as it is about meaningful application in substance instead of a box-ticking approach.

Highlights of Key Principles

Board leadership and effectiveness

- At least half of the board comprises independent directors. For Large Companies, the board comprises majority independent directors.
- Tenure of independent directors should not exceed 9 years but annual shareholders' approval required from year 9 to 12 and after the 12th year, shareholders' approval required via two-tier voting process.
- The Board to disclose in the annual report, the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.
- Detailed disclosure on named basis for the remuneration of individual directors.
- Disclosure on a named basis the top 5 senior management's remuneration in bands of RM50,000. Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

Effective Audit & Risk Management

- The Audit Committee should comprise solely of Independent Directors.
- The Board establishes a Risk Management Committee which comprises a majority of independent directors to oversee the company's risk management framework and policies.

Integrity In Corporate Reporting and Meaningful Relationship With Stakeholders

- Large Companies are encouraged to adopt Integrated Reporting based on a globally recognised framework.
- Companies should consider leveraging technology to facilitate electronic voting and remote shareholder participation.

The new Code is based on the following key principles of good corporate governance:

- 1 Board leadership and effectiveness**
- 2 Effective audit and risk management**
- 3 Integrity in corporate reporting and meaningful relationship with stakeholders**

It contains Intended Outcomes, which provide companies with line of sight on what they will achieve through the Practices, which are actions, procedures or processes which companies are expected to adopt to achieve the Intended Outcome. In addition, the new Code also introduces Step-Up practices to encourage companies to go a step further to strengthen their governance practices and processes.

The first batch of companies expected to report their application of the practices under the new Code would be those with financial years ending 31 December 2017.

If you are interested to find out more about the new Code, or would like any advice or assistance on implementation of good corporate governance within your organisation, please contact amos.law@crowehorwath.com.my.

Contact us

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