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The (Perceived) Roles of Corporate Governance Reforms in Malaysia: The Views of Corporate Practitioners

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Abstract

Purpose – The purpose of this paper is to understand the roles of corporate governance reforms in Malaysia following the 1997/1998 Asian crisis from the perspectives of corporate managers.

Design/methodology/approach – The primary evidence used is drawn from a series of in-depth semi-structured interviews with Malaysian corporate managers involved in the overseeing of the governance structures within their companies.

Findings – This study shows that most interviewees believed that an appropriate corporate governance system could play a role in resolving the problems associated with the interlocking and concentrated corporate ownership structure in Malaysia. However, the effectiveness of the corporate governance reforms in dealing with this issue is questionable. It also reveals that Malaysian companies ‘changed’ their corporate governance practices predominantly to recover (foreign) investor confidence lost during the crisis and to fulfil the legal requirements enforced by the government, where the latter was under pressure from the international community (especially, the World Bank and IMF) to ‘improve’ the Malaysian corporate governance practices after the crisis.

Originality/value of paper – This paper adds to the literature on corporate governance, especially in the context of developing countries. Prior research investigating corporate governance issues in developing countries has been limited, particularly the lack of in-depth examination of corporate governance practices from the perspectives of corporate managers. This paper will be of great value to researchers and practitioners seeking to gain a better understanding of the roles of corporate governance in Malaysia.

Keywords: corporate governance, Malaysia, Asian financial crisis, globalisation
Article Type: Research paper

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Introduction

Corporate governance in developing (especially Asian) countries has started to enjoy a real increase in attention since the 1997/1998 Asian financial crisis (Singh and Zammit, 2006; Koehn, 2002). ‘Poor’ corporate governance has frequently been identified as an important contributor to the 1997/1998 Asian crisis and is sometimes even seen as its main cause. For example, the World Bank (1998) argued that:

> *“Corporate governance [in East Asian countries] has been characterized by ineffective boards of directors, weak internal control, unreliable financial reporting, lack of adequate disclosure, lax enforcement to ensure compliance, and poor audits. These problems are evidenced by unreported losses and understated liabilities. Regulators responsible for monitoring and overseeing such practices failed to detect weaknesses and take timely corrective action”* (p.67-68).

The then President of the World Bank, Wolfensohn (1998, p.38) proclaimed that ‘poor’ corporate governance standards was one of several factors contributing to the Asian crisis because “rotten national economies spring from rotten corporations; if business life is not run on open and honest lines there is little chance that the wider economy can be”. Similarly, the Asian Development Bank (ADB), which launched *A Study of Corporate Governance and Financing in Selected Developing Member Countries* in November 1998, found that weak corporate governance was one of the major contributors to the accumulation of vulnerabilities in East Asia (including Thailand, Indonesia and Malaysia) that finally led to the economic crisis in 1997 (ADB, 2000). In the same way, the diagnosis of the International Monetary Fund (IMF) was that East Asia had exposed itself to financial chaos because its financial system was riddled with insider trading, corruption and weak corporate governance, which in turn had caused inefficient investment spending and weakened the stability of the banking system (Radelet and Sachs, 1998). International agencies such as the World Bank, IMF, and ADB had accordingly called for corporate governance reforms in the Asian crisis affected countries (see ADB, 2000; Aghevli, 1999; Camdessus, 1998; World Bank, 1998, 2000).

The aim of this paper is primarily to understand the roles of corporate governance reforms in one of the developing economies worst hit by the 1997/1998 Asian crisis (namely, Malaysia) from the corporate practitioners’ perspectives. First, the paper attempts to identify and understand the role of corporate governance reforms in Malaysia. Malaysia is a particularly interesting case in that for a number of years it was seen as a worthy example of a ‘tiger economy’, experiencing continuous economic growth and social development, and corporate governance issues had not been seen as a matter of concern (see World Bank, 1993). Corporate governance came to be seen as a problem only after the financial crisis, with a range of international agencies and also the Malaysian government itself advocating improved corporate governance practices as a vital reform and a way of making the country resilient to any future financial crises. For example, the World Bank (2000) argued that:

> *“Deficiencies in corporate governance did not constrain the impressive pre-crisis performance of East Asia’s emerging market economies – but they amplified the subsequent downturns”* (p.69).

Malaysia is also of particular interest because the country faces increased pressure for ‘good’ corporate governance practices, that is to say, meeting the benchmark against the so-called international (essentially Anglo-American) corporate governance code of best practices in view of the growing global competition for foreign investment among developing and developed countries (see Liew, 2007; Shameen and Oorjitham, 1998). Therefore, an analysis of the roles of corporate governance reforms in Malaysia will be of relevance in Malaysia as well as other developing and less developed countries which are increasingly under pressure to reform their corporate governance practices in line with the 'international' standard. The paper also seeks to illustrate how globalisation (or more specifically global capitalism) has (re)shaped corporate governance practices around the world, influenced lives and induced changes that may not be appropriate to a nation/society. Following the Asian crisis, the Malaysian authorities embarked on numerous corporate governance reforms, which were predominantly based on the Anglo-American regimes, aimed at 'improving' corporate governance practices in the corporate sector[1]. The appropriateness of this approach is a matter that needs much consideration, especially at the corporate level – an aspect that is relatively unexplored. The paper through interviews with managers (involved in governance issues within their companies) solicits their views on those reforms. In addition, this paper provides much needed empirical evidence based on the views of nineteen managers as to the practical implications of introducing different corporate governance codes and traditions, fundamentally in terms of how they infiltrate and integrate into existing Malaysian business cultures, and their impact on matters of accountability and business performance. The paper offers insights into the significance of the corporate governance reforms in Malaysia and calls for further research to explore the effectiveness of recent corporate governance developments in Malaysia. The paper further contributes to research in developing and less developed countries by stimulating debates about the importance of local peculiarities and cultures.

The paper is structured as follows. The first section develops the theoretical foundation for understanding the spread of worldwide reforms in corporate governance 'converging' towards the Anglo-American model, focusing on the case of Malaysia. This is followed by a discussion on the role of corporate governance in Malaysia after the 1997/1998 economic crisis. The next section describes the research method adopted to assess and explore the role of reforms in Malaysia from the corporate practitioners' perspectives, followed by the results of the interviews. Finally, a number of conclusions are offered in respect of the role of corporate governance reforms in Malaysia in the aftermath of the crisis.

Globalisation and the Emergence of Corporate Governance Reforms in Developing Countries

Corporate governance is in a state of transition in most countries in the world, with the strongest force for corporate governance reforms being the liberalisation and globalisation of financial markets (Beeson, 2001). Privatisation, deregulation and open free markets with increased foreign direct investments (FDIs) and trading in recent years have all deepened the role of (local and international) capital markets and the private sector in both the developed and the developing worlds. With the advancement in information technologies and transport, capital is now able to move rapidly around the world in search of profits (Sikka, 2008a; Giddens, 2002). These worldwide trends dictate that investment follows the path to corporations and countries that have 'good' governance standards (Ahunwan, 2003; OECD, 1999). Countries and companies compete on the price and quality of their goods and services, and compete for financial resources in global financial markets. These global market pressures, to a certain extent, are driving many countries (in particular emerging and less developed) to change and conform to the so-called 'international benchmark' of corporate governance practices (predominantly based on the Anglo-American models) (see Uddin and Choudhury, forthcoming; Lambert and Sponem, 2005; Beeson, 2001; Economist, 2000; Millstein, 2000).

Following substantial changes in the global market, namely, the proliferation of foreign investments, global capitalism and the increasingly internationalised nature of business education, both domestic and multinational companies have had to respond to new international trading activities, the emergence of new economies and the problems associated with economic downturns. These factors have led to collapses, hostile takeovers and/or restructuring of companies (both domestic and multinational), which have been attributed to ineffective corporate governance (Scott, 1997; Blair, 1995). Due to these problems, there is an international momentum behind moves for reforming and improving corporate governance practices in recent years, especially in developing and less developed countries.

One of the key events that prompted worldwide corporate governance reforms was the 1997/1998 Asian financial catastrophe (Liew, 2007; Singh and Zammit, 2006; Koehn, 2002; Beeson, 2001). Malaysia and other affected East Asian countries were under pressure from supranational organisations such as the World Bank, IMF and ADB to improve/change their corporate governance practices, especially after the collapse of many large conglomerates in those countries, so as to match the expectations of the international/Western community (Liew, 2007; Glen and Singh, 2005; World Bank, 1998). The recommended 'rescue package' was to adopt the predominantly neo-liberal Anglo-American corporate governance systems – a policy that was not well grounded (Singh and Zammit, 2006; Stiglitz, 1999, 2002). In fact, the then Malaysian Prime Minister, Mahathir Mohamad, pointed out that: "[w]e try to follow [the IMF programmes] not because we think the IMF is right, but because if we don't then there will be a loss of confidence … So we try to show that we are with the IMF" (Shameen and Oorjitham, 1998, p.4).

Consequently, the model of governance adopted and implemented in Malaysia after the 1997/1998 crisis was the easily accessible and so-called 'internationally accepted' Anglo-American regimes (Liew, 2007; Ow-Yong and Cheah, 2000). However, it remains open to doubt as to whether the globally-favoured Anglo-American corporate governance codes and practices deliver the promised levels of accountability and transparency (Uddin and Choudhury, forthcoming; Singh and Zammit, 2006; Lambert and Sponem, 2005), let alone whether there is a relationship between such systems and levels or quality of organisational and economic performance (see Moxey, 2004). For example, Lambert and Sponem (2005) argued that the spread of Anglo-American corporate governance model in French companies (with the increase in shareholder pressure) has resulted in a rise in the practice of profit manipulation and a reduction in the relevance of financial statements. Therefore, this paper examines and questions the roles of corporate governance reforms (based on the Anglo-American models) in a developing country like Malaysia.

Corporate Governance: A New Role in Malaysia?

Recovery plans for the corporate sector in Malaysia from institutions such as the IMF and the World Bank have come to be based on the need to reform corporate governance, enhance property and minority rights, limit insider-transactions, and improve disclosure and accounting practices (World Bank, 1998, 2000) – even though five years earlier, the World Bank had seen no need to mention matters of corporate governance when concluding that Malaysia had the basics right in terms of economic management, and effective public institutions and governance (see World Bank, 1993).

Despite such advocates for reforming corporate governance, there is a substantial body of work challenging the assumption that governance 'failings' were a major contributing factor to the 1997/1998 crisis. Stiglitz and Bhattacharya (2000), for example, claimed that increased transparency in the form of disclosure as would be the case with more extensive corporate governance requirements is unnecessary as markets provide optimal incentives for disclosure. Under certain circumstances, disclosure of corporate information could actually intensify fluctuations in financial markets and trigger an economic crisis. In addition, Furman and Stiglitz (1998) pointed to the fact that even countries with solid legal and regulatory systems and no transparency problems, such as Sweden, have had financial crises. Finally, Singh, Singh and Weisse (2002) suggested the claim that poor corporate governance system was the main cause of the Asian crisis is flawed and argued that countries such as China and India were not affected by the 1997/1998 financial crisis even though their fundamentals were worse than those of Asian crisis countries (Singh *et al.*, 2002).

Notwithstanding the inconclusive evidence for the contentions that corporate governance was a (main) cause of the crisis and that corporate governance in Malaysia was fundamentally flawed, the government focused on reforming corporate governance as an important element in managing the crisis. This raises the issue of what prompted the government and some local professional bodies into introducing 'comprehensive' corporate governance reforms.

One of the factors driving the Malaysian government to improve corporate governance standards is to maintain or ensure the continuity of foreign direct and portfolio investments into the country. For decades, Malaysia has been dependent on FDI to spur economic growth. According to Athukorala (2003, p.202), net FDI inflows contributed 43% of net capital inflows to Malaysia between 1990 and 1994. For those years, net FDI inflows contributed to almost 20% on average of the country's annual Gross Capital Formation (GCF)[2] and equivalent to over 7% of the country's annual Gross Domestic Product (GDP) (calculated based on World Development Indicators Online, accessed 2 December 2006). The authorities had to take serious consideration of the impact of the 1997/1998 financial crisis on FDI because such investment had played an important role in the country's successful economic development to date, and a substantial drop was likely to have serious consequences for the Malaysian economy.

Among the initiatives undertaken to maintain or attract FDI to the country following the large outflows of foreign capital funds during the crisis period were: improving corporate governance, a call for revamp of the Companies Act 1965 (The Star, 2003) and the introduction of new rules in June 2004 that allowed foreign investors 100% ownership in manufacturing firms that they established (see BizAsia, 2003). The then Malaysian stock exchange[3] executive chairman Mohammed Azlan bin Hashim announced that:

> *"Enhanced standards of corporate governance and transparency will* ***increase the attractiveness*** *of the public listed companies thus making it easier to raise capital …… [and] more attractive as investment options ……[also] the revamped listing requirements are on a par with the rules of other exchanges in developed markets and this should serve to* ***attract more international investors*** *…... [and] afford* ***greater protection to shareholders***" (KLSE, 2001a, [online], accessed 15 March 2001) [emphasis added].

This is evidence of the significance of FDI in prompting the Malaysian corporate governance reforms.

Furthermore, the Malaysian Securities Commission (SC) argued that emphasis on improving corporate governance was highly significant because globalisation results in increased competition for capital, and investors are factoring corporate governance into their investment decisions (see SC, 1999). For example, following the crisis, CalPERS, the largest

United States public pension fund and the third largest in the world, drew up a set of global governance principles and has since tried to ensure that the investments it commits to Asia are not invested in companies that lack ‘good’ governance practices. In February 2002, it announced its intension to withhold new investment in several emerging markets (including Thailand, Russia, Malaysia and Indonesia) after a review that looked at corporate governance issues such as transparency and shareholder rights in the region. In particular, CalPERS’s president, William Crist, claimed that corporate governance reforms in Indonesia and Malaysia still lagged behind other South East Asian emerging markets (Edge Daily, September 10, 2002).

The newly appointed National Economic Action Council’s (NEAC) executive director, Mustapa Mohamed (Mohamed, 2002), also proclaimed that corporate governance must not be neglected in an increasingly internationalised economy and that enhancing “corporate governance is an important agenda in any nation’s development strategy” (para.3). He argued that for Malaysia to sustain economic competitiveness, apart from sound macroeconomic fundamentals and attractive fiscal incentives, ‘good’ (or ‘improved’) corporate governance and effective control systems must be in place to improve and maintain investor confidence thereby drawing investments which will grow the country’s economy:

> *“Any country hoping to attract investors and investments around the world must **demonstrate** that its **corporate culture and governance practices are in line with global best practices** as investors unfamiliar with local business conditions seek to be assured and comforted that their interests are sufficiently safeguarded”* [emphasis added] (Mohamed, 2002, para.35).

The need to attract foreign investment to sustain economic growth and pressures from foreign investors and international organisations such as the World Bank and the IMF to ‘improve’ corporate governance practices so as to align with the so-called ‘global (Anglo-American) best practices’ could be seen as a major reason for the corporate governance reforms in Malaysia. The question here is that if corporate governance was not a criterion for investors in making their decisions to invest in Malaysia before the crisis, why did it become an issue after the crisis?

On the other hand, it could be that improving corporate governance or adopting ‘good’ practices of corporate governance in Malaysia was being used as a measure to enhance shareholder protection, in particular protection of minority shareholders (see HLFC, 1999). Zhuang *et al.* (2000) found that legal protection for shareholders (especially minority shareholders) had always been inadequate in Malaysia. They noted that although laws concerning shareholder rights and the regulatory framework in Malaysia appeared comprehensive and were relatively adequate compared with other countries in their study, shareholder rights were often neglected in practice because of the excessive power enjoyed by controlling shareholders. Furthermore, Fan and Wong (2002) argued that outside investors perceive that controlling owners who oversee the accounting reporting policies have strong opportunistic incentives for self-interested activities; therefore the quality of accounting information will be lower. In another study, they suggested that external independent auditors could be employed as monitors and as bonding mechanisms to alleviate the agency conflicts between controlling shareholders and minority shareholders in Malaysia (Fan and Wong, 2001) – as opposed to the conventional principal-agent problems between managers and shareholders. This implies that corporate governance reforms in Malaysia could contribute to improved minority shareholder protection in the generally concentrated Malaysian businesses[4].

Traditionally, principles of 'good' corporate governance would not be a concern to the family-run or owner-managed companies common in Malaysia. However, the situation may now have changed. Zafft (2002) argues that family-run firms need robust corporate governance structures both to operate the business and to promote business harmony. He notes that the greatest challenge for family businesses is management succession since it is difficult to keep a business going across generations. Family businesses may also fail because of jealousies that emerge, for instance, some family employees hold higher positions than others or work less hard for the same pay, and supervisors find themselves incapable of firing an under-performing subordinate who is related to them. Such businesses should therefore institute decision-making and monitoring procedures that are open and impartial, as well as possibly hiring non-family members as advisors, managers and directors. He concludes that:

> *"Family-run businesses can represent the work – and the wealth – of several generations. If business owners want to preserve, enlarge and pass on this legacy, they need to make corporate governance a family affair"* (p.19).

The problem here is that the Malaysian corporate management traditions (which are based on concentrated ownership) had certainly contributed to decades of economic success before the crisis, yet these traditions came into question following the crisis. There is therefore a need for further investigation whether corporate governance reform can play a role in the Malaysian family businesses – an issue that will be examined later in this paper.

In addition, the revelation of a few high-profile cases of poor corporate governance relating to companies with political links, notably Renong-United Engineers Malaysia and Malaysia Airline System (see Ong, 2001) following the economic catastrophe has undermined market sentiment and exacerbated the crisis in Malaysia. Two forms of political favouritism are said to exist in Malaysia (Gomez and Jomo, 1997): the official status awarded to companies that are run by the Bumiputras[5] and the informal ties between leading politicians and companies. The increased government intervention required for implementation of the National Economic Policy (NEP) (since 1971) and privatisation (first introduced in 1983) opened the door to greater political involvement in the financing of Malaysian companies and a number of major conglomerates controlled by Bumiputras, with their close links to the political elite, emerged and developed rapidly during the 1980s and early 1990s. Extensive political nepotism and cronyism had grown with privatisation (Jayasankaran, 2003 and George, 2005). Furthermore, these politically affiliated business groups could easily obtain bank loans from government-controlled banks, using their political influence to finance projects (Yoshihara, 1988). Gomez and Jomo (1997) noted that, by 1996, the rise of most leading businessmen in the Malaysian industry was linked to the patronage of influential political actors; wealth creation relied on whether their patrons remained in power. Following the 1997/1998 crisis, the downfall of the then Deputy Prime Minister Anwar Ibrahim and former Finance Minister Daim Zainuddin caused many of their business allies to struggle to protect their corporate interests (see Johnson and Mitton, 2003). Many large conglomerates owned and run by these businessmen collapsed. This raises the question as to whether the corporate governance reforms undertaken so far (essentially based on the Anglo-American models) will be able to capture the political influence in the Malaysian corporate sector because the political elites (who ultimately set the regulatory framework for the corporate sector in Malaysia) and many of the important economic players are mostly the same individuals (see Searle, 1998).

Generally, the fact that Malaysia achieved continuous high growth for nearly a decade raises some issues on whether reforming corporate governance is an appropriate solution to the crisis. First, the global claim that corporate governance in Malaysia was fundamentally flawed has not been definitively established. The question is whether standards of corporate governance in Malaysia were really so poor, or was there a misunderstanding by foreign governments and companies about business practices in Malaysia? For instance, the then chairman of the Malaysian Accounting Standards Board (MASB), Raja Arshad Raja Tun Uda, stated that many foreigners still believe that Malaysian Generally Accepted Accounting Principles (GAAP) was not based on the International Accounting Standards (IAS):

> *"The problem with Malaysia is that we do not sell ourselves well enough despite having all the corporate governance, accounting standards and corporate reporting framework the outside world still does not know what we have"* (quoted in Yeow, 2002, [online], accessed 29 October 2002).

This raises another issue: perhaps good fundamentals and policies are not enough if they are not sufficiently visible, and that transparency is essential. However, this is contradicted by the fact that investors invested heavily in the country pre-crisis.

Research method

The primary aim of this study is to try to understand the roles of corporate governance reforms in Malaysia. An open-ended approach was used to gain data that provided more of an in-depth insight into the research inquiry. Accordingly, the research was conducted using a mix of qualitative research methods, namely, documentary analysis and semi-structured interviews. The reason for using semi-structured interviews as the primary data collection method was that it imposes some structure on the interview situation and therefore assists in framing subsequent analysis. It also allows specific key issues and questions (although these vary slightly from interview to interview) to be discussed in an open-ended manner, with the intention of inviting informants to participate in a dialogue. It is a less restrictive and prescriptive method than structured interviews, in that it permits adjustments to be made and develop further interesting lines of enquiry which arise during the interview itself (Easterby-Smith *et al.*, 2001). Moreover, semi-structured interviews have the potential to elicit in-depth information that is generally difficult to obtain through other approaches (such as questionnaire survey), especially when the subject matter is regarded as complex, confidential or sensitive.

This study draws on the experiences of nineteen corporate practitioners gathered from a series of interviews held with them during the summers of 2001 and 2002. The interviews lasted between 30 and 120 minutes, with some interviews being tape recorded as permitted by the interviewees while notes were taken throughout all the interviews. These interviews took place shortly after the landmark corporate governance reforms in Malaysia following the crisis, namely, the introduction of the *Malaysian Code on Corporate Governance* in 2000 and the Malaysian stock exchange listing requirement revamp in January 2001. It seemed sensible that collecting interview data close to these events would provide significant and interesting insights into the Malaysian corporate governance reforms.

This research had been designed to interview senior managers who worked in a public listed company and have had direct involvement in the governance issues within their companies. The main reason for choosing senior managers for interviews was that all these interviewees have had some input/workings at different levels of the corporate governance development within their previous/existing companies such as at the operational levels and/or policy development. Moreover, they could be expected to have a broader perspective on corporate governance issues and therefore seemed more likely to be able to provide more detailed accounts of the promotion of corporate governance reform at the corporate level and in Malaysia generally. The issues raised during the interviews covered the importance and benefits of corporate governance reforms to the interviewees' companies and the Malaysian corporate sector in general, the basis for or factors leading to changes, and the changes of corporate governance practices at the corporate level.

Findings

The following sections present and discuss the findings draw from the nineteen interviews conducted. The aim was to identify and understand the role of corporate governance reforms (or in other words, what an 'ideal' corporate governance model could have contributed to the Malaysian corporate sector), and the practical implications of introducing a different set of corporate governance code and practices on the corporate shop floor. A number of themes emerged with respect to these matters and they are, to a considerable extent, inter-related.

The (Perceived) role of the reforms

(a) Professional Management

A number of interviewees indicated that they supported corporate governance reforms in their companies (and the Malaysian corporate sector in general), on the basis of their beliefs that corporate governance ensures that their companies would have a "better boss" and a team of "better" and "more professional" managers and directors running the businesses. Besides that, it also promotes "good corporate management", and "the practice of good ethical behaviour" with "no self-interest" on the part of the management (remarks by an audit committee member and the finance director of a family business). Conversations on this matter with the interviewees were linked to the belief that there were many "unprofessional … [and] irresponsible" corporate directors and senior managers who were "very greedy" and emphasised "too much pure self-interest", and the lack of "integrity and honesty" among them. For example, an interview with the finance director of a family business noted that many individuals took up the job of company director "because of the directors' fees … [and] they say yes to all" issues raised at board meetings. He also pointed out that many directors did not "even know and understand company law while they were supposed to be responsible". It was argued that corporate governance "is designed to address these issues" and "forces directors to be more aware of their responsibilities". This point of view was also being expressed by the internal auditor of a financial institution, an audit committee member of a family business and the chief executive director of an enterprise with high level of international trading.

In that it could play a role in promoting professional corporate management, along with enhanced transparency and corporate disclosure, many interviewees agreed that corporate governance is "a deterrent to top management and directors mismanagement" and can "reduce the chances of malpractices and abuses of power from happening", because it is the instrument to check and capture "those hanky-panky things … such as siphoning off of money" (commented by a chief financial officer).

The continuing existence of many corporate abuses and exploitations, and the importance and role of corporate governance reforms to resolve these problems in Malaysia were generally brought into discussion by the interviewees in association with the subject of (widespread) family and concentrated ownership in the Malaysian corporate sector. It was claimed by a number of interviewees that the highly inter-related and concentrated ownership corporate shareholding structure, together with the significant dominance and participation of major shareholder(s) in management in many Malaysian companies, allowed some of them to pursue their self-interest and questionable financial practices:

"Most Malaysian companies are dominated by one person – the main shareholder – where this person dictates and commands what should be done. That's the main problem that is always here." (A company secretary)

"Most companies in Malaysia are family-controlled with the family members [being] the major shareholders [who] always sit on the board as the managing director or chairman ... [They] abuse their powers for their personal interests like the chairman's personal expenses are always charged to the company … [Besides] their objectives were different from the management most of the time, and they override the management's decisions that are inconsistent with theirs … the management team being the salaried staff, they have to obey" (A corporate planning manager).

Stressing the importance of corporate governance, a corporate planning manager stated that effective corporate governance ensures that "no one is taking control of the company and being able to manipulate company activities in pursuing their own interests". In other words, and in the context of the Malaysian corporate sector, corporate governance is seen to be crucial in preventing controlling shareholder(s) from engaging in activities that are illegitimate or detrimental to other shareholders or outsiders (especially the minorities) or other stakeholders. Although most interviewees were positive about the roles corporate governance can play in their companies in terms of limiting "owners' ability to 'milk' the company to enrich themselves" (comments by a finance director), they expressed reservations about its effectiveness:

"The major shareholder always has the control at all levels and is the ultimate decision maker. At the end of the day, audit committee members will be threatened if they were not to follow his views. He will tell them that 'you take it or not, if not, I will give it someone else' – the same applies to the external auditor" (A corporate planning manager).

"Independent directors are important to check upon these [family-based owner] directors who make all the decisions all the time. Well, it will not necessarily work well because they are friends [with each other]" (A chief financial officer).

The evidence suggests that corporate governance could potentially play a role in ensuring corporate accountability to shareholders and possibly other stakeholders in Malaysia. However, the mindset of controlling owner-managers is a key to the success of any change and 'improvement' in corporate governance since it is this group which will largely determine whether the change is substantive or in form alone. Furthermore, there appears to be increasing reliance on independent non-executive directors (NEDs) to play the monitoring role in 'improving' corporate governance practices in Malaysia without questioning the effectiveness of NEDs in the local context. For instance, Haniffa and Cooke (2002) found that non-executive chairpersons in Malaysian companies tend to keep private information for their own benefits to the detriment of shareholders.

(b) Economic Importance

The question whether corporate governance will in fact improve corporate performances was raised with some interviewees when they were asked about the benefits corporate governance will bring to their companies. A large number of interviewees argued that corporate governance is "absolutely vital" to their (and any) companies because "with good governance … profits will definitely be improved", and "if we don't enforce it, it will hit our bottom line" (remarks by a senior manager from a financial institution). Speaking out cynically about existing corporate governance practices, whilst believing in the potential benefits corporate governance, in terms of enhanced transparency, could bring to her company, the company secretary of a family business noted that:

> *"If truly practised corporate governance, with proper disclosure and transparency in decision-making compared to the current system of personal self-interests, was in place, it should improve profits".*

Similarly, one of the internal auditors interviewed explained that:

> *"Indirectly, corporate governance would improve profit and performance. For example, with more disclosures and being more transparent, related-party transactions and dishonesties among top management will be limited".*

In linking the performance-enhancing role of corporate governance directly with risk management, interviewees also emphasised the importance for their companies of managing all risks involved appropriately. A typical comment was:

> *"Corporate governance will indirectly help in improving profits because with good internal control and risk management, it will reduce the costs of un-managed risks".*

Deeper discussions on this issue revealed their (and many other Malaysian) companies' attitudes towards risk and the state (or rather the lack) of risk management before and during the crisis. For example, most of the planning/development managers and the senior executive officers interviewed pointed out that companies were "too risk-taking" with a "gambling attitude" before the crisis. It was also noted that many companies "were over-geared", "not prudent enough and too eager for money" where they "grew by extensive borrowings" and were "too diversified into areas in which we have little expertise and are therefore overly exposed to operational risks" and more importantly "the risks attached to all [these] were not assessed and managed accordingly". Indeed, these companies were often regarded as "entrepreneurs during the boom" in virtue of their high (and excessive) risk taking approach in search for higher returns. Remarkably, it was highlighted that "corporate governance and risks were never in our [corporate and banking] culture" prior to the crisis.

The above evidence implies that corporate governance reforms may play a role (directly or indirectly) in strengthening the performance of the participants' companies. However, an assistant finance manager indicated that "good corporate governance does not translate into good profits. It is not to ensure profitability for us". In a similar vein, whilst conceding that there may be some indirect association between corporate governance and profitability to their companies, two interviewees specified that "there is no direct linkage between corporate governance and profit". In addition, one of the interviewees who worked for a family business was uncertain about the advantages corporate governance reform will bring to their company in performance terms, stating that "some changes [in corporate governance] have taken place since [the reform]; hopefully there will be some benefits". These four interviewees believed that the main role of corporate governance reforms was to restore (foreign) investors' confidence (will be discussed further in the next section).

The degree of reforms in practice

At the outset, it should be noted that it was not an option for a PLC simply to disregard corporate governance matters because of the changes in the Malaysian stock exchange listing requirements demanding all PLCs to comply with the *Malaysian Code on Corporate Governance* (hereinafter *Code*) (HLFC, 2000). While there were some adjustments to corporate governance, they were to some extent rather ceremonial.

Firstly, most interviewees indicated that "the way the company is run is the same", "nothing is really new in the company", "there is not much change in board composition except those required by the regulations" and "many (corporate governance) matters were mainly 'talking out and acting'" following the crisis. Common changes in corporate governance practices were mostly increases in (more detailed) disclosure and reporting, and not limited to financial information but also other aspects required by the Malaysian corporate governance code of best practices[6] (see HLFC, 2000):

> *"Last time, we did not need to report much; now with new regulations, everything you do or what has happened and any changes made in the company or members of staffs, etc. need to be reported including attendance of directors at meetings … [and] the internal auditor is required to report to the audit committee"* (A corporate development manager).

> *"We believe in corporate governance and since the crisis, we have spent a large amount in developing good risk management practices as required by the [Central Bank of Malaysia, stock exchange] and the Securities Commission"* (A general business manager).

These comments were echoed by most interviewees as to the main corporate governance changes that their companies had made – increase in disclosure of information and incorporation of new corporate governance rules/regulations implemented by the Malaysian authorities following the crisis.

The interviewees were then questioned as to why their companies had to change in terms of corporate governance practices. All of them answered promptly that "it's the regulations" or more precisely: they had to comply with the new Malaysian stock exchange listing requirements which demand that all listed companies are required to include in their annual reports a narrative statement of how and to what extent they have complied with the principles and best practices set out in the *Code* (HLFC, 2000) and must explain any circumstances justifying departure from such best practices (KLSE, 2001b, para. 15.26). While the corporate governance reforms adopted in Malaysia followed the principles-based 'comply or explain' approach, it was evidently being interpreted by interviewees as a requirement to 'comply'. This suggests that the Anglo-Saxon 'comply or explain' concept would be inappropriate in the Malaysian context. Arguably, globalisation (or more specifically, global capitalism) has prompted corporate governance reforms in a nation that may not be suitable in the local context.

Typical elaborations on their initial responses included "the changes in our company in terms of corporate governance practices were quite formal … being done as required" and "we mainly do only what is required by the KLSE [Malaysian stock exchange] and Securities Commission". Frustrated by the "superficial" change of corporate governance practices at her company, the company secretary of a family business complained that "everything is just being displayed due to the regulations" suggesting that the authorities' actions in legitimising corporate governance reforms had been largely ineffectual and have led to little real practical change in behaviour.

However, when the interviewees were asked whether their companies would make those changes voluntarily if regulations were not in place, instant answers "No" were firmly given by all interviewees, with most arguing strongly that "without regulations, there will be no change for sure", and that "even with regulations, companies are still trying to find ways not to fall within the guidelines" (commented by a legal manager). It was apparent and understandable that the new legal requirements were not welcomed by most interviewees. Interestingly, a chief executive director revealed that "I think there was a lack of regulations that [had] allow[ed] many [governance] problems to exist … It is important to have the corporate governance rules – it is like all games, there must be some rules", and a legal officer highlighted the necessity to legislate corporate behaviour in Malaysia: "we must be regulated due to the attitudes of Malaysian society and companies … [They] will only do it when there is a sanction".

Although interviewees claimed that their (and other Malaysian) companies would not voluntarily make the required corporate governance changes, the idea that shareholders' and (especially foreign) investors' expectations of corporate governance practices need to be met in order to maintain easier and cheaper access to capital was brought up by a finance director. He emphasised that failure to implement 'good' corporate governance has a cost beyond regulatory problems and indicated that companies without 'good' governance practices and procedures can pay a (governance) risk premium when competing for scarce capital in the global markets:

> *"If investors were rational, for a company with better corporate governance, good track record and prudent in decision making as with ours, risk premium will be lower and thus cost of raising capital should improve".*

The lack of adequate corporate governance procedures, arising from inadequate timely accurate disclosure of information, leading to the erosion and loss of (foreign) investors' confidence after the disappointment of their expectations in 1997/1998 was raised by other interviewees, for example,

> *"Foreign investors, sad to say, said that we have not had enough awareness of corporate governance issues … [and] they had became very reluctant to invest in us"* (an internal auditor).

> *"A lot of foreign investors from the West … keep on questioning our corporate governance ... saying that we are not transparent"* (a chief financial officer).

> *"Foreign investors demand corporate governance change [after the crisis] ... they said that we don't have good corporate governance, therefore they pulled out their investments … [then] the local investors followed"* (an assistant finance manager).

Most interviewees evidently felt that meeting foreign investors’ demands and pressures to ‘improve’/reform corporate governance so as to revive and maintain their confidence was paramount, in view of their influence on Malaysian stock market share prices. This knock-on effect had led the interviewees’ companies to take steps to ‘improve’ their corporate governance practices to some extent, or at least, to have reached the point where they were perceived to have done so.

This issue was related directly to the importance of corporate governance in restoring and maintaining shareholders’ and investors’ confidence after the crisis. A finance director noted that corporate governance is “very critical” to his company’s “survival” because it helps in recovering shareholders’ and investors’ confidence. Expressing it in the same way, the senior corporate planning manager from a financial institution stressed the importance of corporate governance to all financial institutions in “win[ning] the confidence of investors”. In addition, a chief finance officer specified that corporate governance reforms in terms of improving transparency and information disclosure is crucial in rebuilding and boosting the confidence of his company’s shareholders and potential investors:

> *“Corporate governance is very much about bringing back and giving more confidence to our shareholders and investors”.*

This view was echoed by a legal officer who added that his company’s corporate governance changes made were essential to “improve the confidence” of investors.

The internal auditor of an enterprise with high level of international trading remarked that “when we have corporate governance in our company, [investors] will have more confidence in us and therefore be more willing to invest in our company”. In a similar vein, an executive director pointed out that:

> *“Good governance provides a good future for us because it enables us to attract long-term external sources of funds by ensuring more confidence from shareholders and investors, both local and foreign”.*

Similarly, a finance director contended that “we want to attract investors; therefore we must show them that we are disclosing everything to them and not hiding anything”. All interviewees except a company secretary mentioned that compliance with corporate governance codes of best practice is important to their companies in securing a “better reputation” or “better corporate rating” to “attract more investors”. A legal officer also argued that “companies with full compliance stated in their corporate governance statements will be regarded as good companies” and therefore it was essential for companies to have the corporate governance changes “so that we will be able to sell ourselves better”.

Sitting uncomfortably with the development of corporate governance in the country where many companies “unethically” strive to be seen to have ‘good’ corporate governance rather than actually to have it in order to attract investors, the senior corporate planning manager of a financial institution voiced his concern that corporate governance “has turned into a sort of business”. He illustrated his point with an event that happened in the Malaysian corporate sector (at the time of the interview) where “some companies financed or provided businesses to some magazine publishers, which produce rankings of companies’ corporate governance practices, to make sure that they were being ranked highly”. This suggests that companies recognise the benefits of being seen to be practising ‘good’ corporate governance; whilst, arguably, genuine changes were still avoided.

Apart from that, many interviewees raised the issue of difficulties encountered in integrating the recommended corporate governance principles and practices into their companies. At a specific level, some interviewees claimed that the continuous changing of the corporate governance rules by the regulators had "confused companies in terms of what should be done … the government should not change a rule suddenly without careful and public discussion" (a corporate development manager). This may imply that the recommended corporate governance practices (and rules) were implemented on an ad hoc basis that may lead to some undesirable consequences at a later stage. At a broader level, the practicality of the Malaysian corporate governance guidelines and the effectiveness of the approach used in reforming corporate governance were criticised:

> *"We have the framework in place, but we didn't have the follow-through procedures to ensure the effectiveness of corporate governance principles"* (A senior corporate planning manager).

> *"Not all of the corporate governance recommendations and regulations enforced are particularly applicable … The problem is that one country's corporate governance doesn't mean that it is applicable to us. In the US and UK, there are differences in culture, environment and attitudes towards managing a company. The current corporate governance code is 90% of the US/UK corporate governance code; that's the reasons many provisions [of the promoted corporate governance code] are inappropriate to us. We cannot simply put a ready made system into a country"* (An internal auditor).

The above discussion clearly indicates that global capitalism and pressures from foreign investors had pushed Malaysia to adopt (the Anglo-American) corporate governance practices that may not be appropriate to domestic firms because of differences in history, traditions and social relations. Furthermore, although not a widely shared view amongst interviewees, it was pointed out by five interviewees that the corporate governance reforms implemented in Malaysia neglected the idea of corporate social responsibility:

> *"Corporate governance should be for everyone in the society, not just for companies and shareholders but also the employees, the public and other [stakeholders] … basically [the promoted corporate governance] is mainly for shareholders".*

In general, the Malaysian corporate governance reforms appear to be a direct attempt to please an even more limited set of stakeholders than 'company shareholders' – namely, foreign investors. For example, the Malaysian corporate governance code of best practice was introduced in recognition of the crucial role that enhanced standards of corporate governance can play in boosting international investor confidence (HLFC, 1999). Significantly, the views of corporate practitioners interviewed presented above indicated that foreign investors certainly play a role in advocating corporate governance changes in their companies and Malaysia in general. Globalisation and pressures from foreign investors had played a part in highlighting that the Malaysian corporate governance reforms should focus on company shareholders and foreign investors. However, the issue of whether the reforms *should* favour shareholders/investors or minority shareholders and other stakeholders has not yet been clearly raised.

During and after the crisis, those who were badly affected were the minority shareholders and other stakeholders such as employees, creditors, suppliers and society (especially the poor) rather than large shareholders. Should the former therefore be given more protection compared to the latter? The corporate governance reforms undertaken have noticeably not given sufficient attention to protecting minority shareholders and other stakeholders (see HLFC, 1999) and this was clearly highlighted by the interviewees. It appears therefore that the newly emerging corporate governance philosophy of Malaysian enterprises may not fully promote public accountability, social responsibility or any strong commitment to good corporate citizenship and truly sustainable growth. Implementing the ‘new’ (globally promoted Anglo-American) corporate governance practices that privileges (foreign) shareholder accountability, rather than focusing on minority shareholders and corporate social responsibilities, may ultimately end up being damaging to Malaysia. Arguably, globalisation has induced corporate governance reforms (which are based on the globally accepted Anglo-American regimes) that may not be suitable to a nation because of the existence of local peculiarities, cultures and traditions.

In addition, the corporate governance reforms do not seem to have had the desired effect of sustaining Malaysia’s competitiveness in terms of attracting foreign investment. Five years after the national promotion of corporate governance, the FDI in Malaysia had not returned to its pre-crisis level. The annual average net inflows of FDI as a percentage of gross domestic product (GDP) in Malaysia between 1990 and 1997 was more than 6%, a figure that has constantly decreased over the years since the crisis to just over 3% between 1998 and 2005 (World Development Indicators Online, accessed 2 December 2006). This implies that the corporate governance reforms have not been sufficient for Malaysia to improve its attractiveness to foreign investors, as opposed to the belief advocated extensively by the international community, especially intergovernmental organisations such as the World Bank, IMF and OECD.

Concluding remarks

Based on material gathered from the nineteen interviews conducted, this paper has presented an analysis of the roles and the extent of corporate governance reforms in Malaysia. It was found that the interviewees shared the view that the promotion of corporate governance reforms in Malaysia was primarily to fulfil the legal requirements enforced by the regulators. This has implications for the degree of genuine corporate governance changes in practice. According to the interview data, it seems that companies tend to focus on the form rather the substance or spirit of corporate governance practices. It could also be argued that there was substantial hesitancy about, and resistance to, corporate governance reforms aimed at improving accountability and responsibility. Nevertheless, on the positive side, the reforms appear to have made the Malaysian corporate board members and top management more cognizant of their accountability and responsibility in their decision making processes.

The complex system of interlocking, concentrated and family ownership structure prevalent in Malaysian companies and problems in relation to this were brought up and discussed extensively among many interviewees. They expressed the view that corporate governance could play a significant role in solving the problems (corporate misconduct) associated with the Malaysian corporate ownership structure; however, the effectiveness of the corporate governance reforms initiated by the government was doubted. The inference from the analysis is that the degree of corporate governance reforms depends largely on controlling shareholders’ (for family-run concentrated and politically-connected businesses) and top managements’ (for professional-run companies) willingness to change, and the extent of the (external) pressures to which their companies are exposed (see Liew, 2007). The corporate governance reforms undertaken do not seem to have resolved the issues raised by the interviewees: the recent study by Tam and Tan (2007) concluded that shareholders' rights protection, especially protection of minority shareholders, remains an issue to be dealt with in Malaysia, since large shareholders continue to exert dominant control via ownership concentration and representation on company board. The self-seeking and self-gratifying attitudes of companies' owner-managers and/or those charged with governance appeared to be the main obstacle to fundamental reform of corporate governance practices in Malaysia. It specifically highlights the need to strengthen minority shareholder protections in Malaysia – an issue that may also need to be dealt with by other East Asian and developing countries where corporate ownership structure is relatively concentrated.

Hitherto, it seems that Malaysian companies and the country in general had striven to reform corporate governance as a response to deflect and pacify negative publicity and criticism from the international/'Western' community in the aftermath of the 1997/1998 Asian crisis[7] while not making any substantive change (as pointed out by many interviewees). Globalisation and the apparently growing global reach of Anglo-American corporate governance regimes have certainly played a central part in pushing the approach adopted by Malaysia, to the extent that the Malaysian authorities and institutions established to ensure sound corporate governance feel obliged to align Malaysian corporate governance standards with the widely accepted Anglo-American standards (see Liew, 2007), with little opportunity to seriously consider the economic and social consequences that the approach could have. Arguably, the promotion of (essentially neo-liberal Anglo-American) corporate governance reforms in Malaysia is questionable and has not seemed to be providing solutions and targeting the specific local (political) problems in the corporate sector and country. This is similar to the findings of other studies based on developing and less developed countries. For instance, Uddin and Choudhury (forthcoming), Liew (2007) and Beeson (2001) argue that the Anglo-American forms of capitalism are not necessarily suitable to emerging and less developed countries especially that the reforms undertaken are likely to be resisted by local powerful vested interests.

This research raises a number of issues that need further consideration with regards to the appropriateness of the corporate governance reforms implemented in Malaysia following the crisis. First, the focus of corporate governance reforms in Malaysia could have been on minority shareholder protections, as commented by some of the interviewees, rather than the conventional principal-agent problems (conflict of interests between owners and managers) in Anglo-American businesses. Furthermore, the reforms could have placed more emphasis on corporate social responsibility to stakeholders and wider public interests – something that is very much needed in Malaysia and other countries in the era of global capitalism. The Malaysian economic, political and social settings have resulted in undue state and detrimental political influence on businesses, yet the corporate governance reforms undertaken seemed to not be able to resolve this matter – this may be due to the fact that the adopted globally-favoured Anglo-American corporate governance models were based on economic, political and corporate settings that mainly exist in the UK and the USA. It would perhaps be beneficial for Malaysia to have more independent regulatory authorities representing a wide variety of stakeholders as well as improvement in their accountability and transparency to ensure that the rules and regulations are effectively enforced without any political influence. It is also evident that the Malaysian corporate governance reforms have concentrated on amending rules and regulations, and advocating self-regulatory mechanisms. This may not be sufficient to create change and securing accountability as witnessed in the UK and the USA (see Sikka, 2008b, Arnold and Sikka, 2001), and certainly had not been effective in practice from the interviewees' perspectives. Legal institutional reforms may therefore be needed to improve the structure, capacity and performance of the Malaysian judicial system. A radical overhaul of the existing regulatory, institutional and corporate governance framework that is capable of capturing the domestic (especially political) problems and promoting public accountability is needed in Malaysia. This paper calls for further research to explore the effectiveness of the more recent corporate governance developments in Malaysia.

The findings of this research have significant implications for improving the overall corporate governance practices in Malaysia in that they highlight the inappropriateness of adopting the so-called international (predominantly Anglo-American) corporate governance regime. Unlike most studies on corporate governance issues in Malaysia and East Asian countries which are quantitative based, this research has provided a more in-depth insights and understanding of corporate governance practices, using a qualitative interview based approach: Haniffa and Hudaib (2006, p.1057) suggest that "future research … using … semi-structured interviews with those involved in the overseeing of the governance structures within the company may enhance our understanding of governance structures appropriate for adoption".

This study may also have implications for other East Asian and developing countries' corporate sector regulators and reformers who are striving to improve corporate accountability, governance practices and social responsibility in their countries.

Endnotes

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1 See Liew (2007) and Cheah (2005) for a more detailed account of corporate governance reforms initiated by the Malaysian government after the Asian crisis.

2 Gross Capital Formation (GCF) is a measure of the net new investment by businesses in a domestic economy in capital assets during an accounting period. According to the World Development Indicators Online, GCF is outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales and work in progress. According to the 1993 System of National Accounts, net acquisitions of valuables are also considered capital formation.

3 The Malaysian stock exchange has changed its name from Kuala Lumpur Stock Exchange (KLSE) to Bursa Malaysia Berhad on 20 April 2004 (see Bursa Malaysia Berhad, 2004). To avoid confusion, this paper therefore does not use either of these names but rather the term 'Malaysian stock exchange'.

4 Malaysian businesses are characterised by the high level of (family) ownership concentration, pyramiding and significant participation of owners in management (Liew, 2007; Tam and Tan, 2007; Claessens *et al.*, 1999; La Porta *et al.*, 1998 and Lim, 1981).

5 The Malay term 'Bumiputra' means 'sons of the soil', i.e. the indigenous people. In Malaysia, Bumiputras are entitled to preferential treatment in many respects, e.g. education, business opportunities, and so on.

[6] Although increased disclosure of information such as directors' attendance might be useful, the impression of director effectiveness might just be an illusion.

[7] This phenomenon was also noted by Clark *et al.* (2005)'s study on the case of Royal Ahold. They found that due to the dramatic loss of international investor confidence following the crisis at Ahold, the company's management had responded quickly by improving transparency and governance standards consistent with the expectations of global investors.

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