



UPNM

National Defence University of Malaysia

Kewajipan • Maruah • Integriti



MS ISO 9001:2015 REG. NO. KLR-0500197

UNIVERSITI PERTAHANAN NASIONAL MALAYSIA

www.upnm.edu.my

SUB MODULE GOVERNANCE

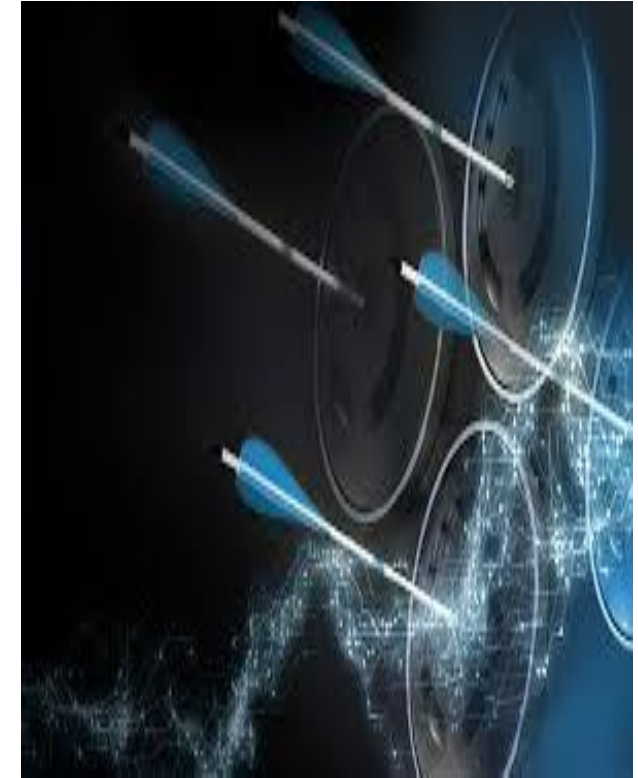
Private Sector Governance

ICOSTELM 2023

Prof Dr Mohd Abdullah Haji Jusoh

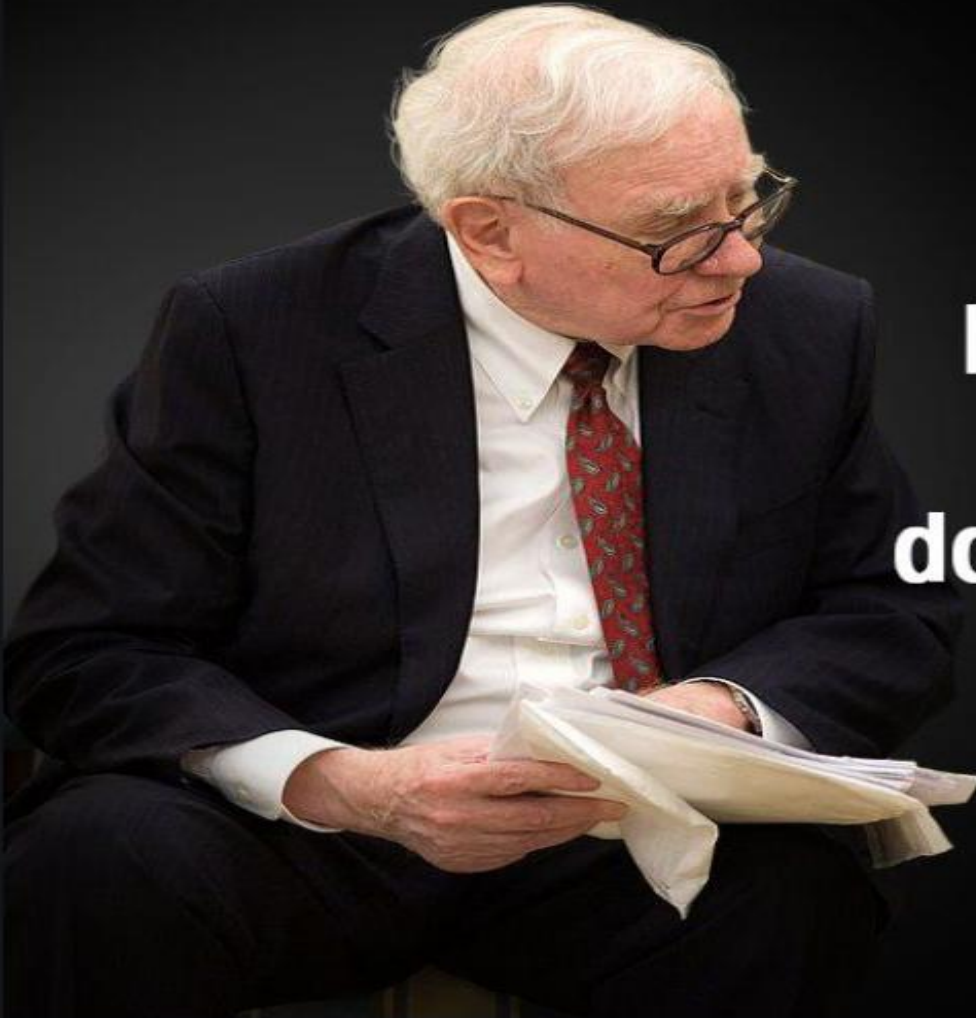
OUTLINES

- Corporate Failure and Governance Response
- Malaysian Corporate Governance Reform
- Overview of Malaysia condition
- Assessment of our current situation



MS ISO 9001:2015 REG. NO. KLR-0500197

REFLECTION



Look for 3 things in a person.
Intelligence, Energy, & Integrity.
If they don't have the **last one,**
don't even bother with the first two.

– *Warren Buffett*

CORPORATE FAILURE AND RECESSION...CG response

- US Wall Street crash 1929....Securities Act 1933
- US Corporate Scandal (eg. Penn Central) 1970s...NYSE rule of establishment of audit committee 1997
- UK Robert Maxwell MMC, BCCI, Polly Peck 1990/91.....Cadbury Report 1992, Greenbury 1995, Hampel Report 1998, Turnbull Report 1999
- Asian Financial crisis 1997/98....OECD Principle of CG 1999
- Enron, WorldCom, Tyco, Adelphia, Global Crossing 2001/02....Sarbanes-Oxly Act 2002
- Australia HIH, OneTel 2001/02....Australia Corporate Law Economic Reform Program 2002

MALAYSIAN CORPORATE GOVERNANCE REFORM

- After East Asian Financial crisis 1997, the Malaysian government has taken steps to review and strengthen corporate governance in Malaysia.
- Among the major moves in the development of corporate governance in Malaysia were
 - the incorporation of the Malaysian Institute of Corporate Governance (MICG) 10 March 1998
 - Malaysian Code on Corporate Governance in January 2001 revised version 2007
 - The establishment of the High Level Finance Committee on Corporate Governance (FCCG) 24 March 1998, and
 - The reformation and enforcement of legal requirements Securities Industry Act 1983, the Securities Commission Act 1993

OVERVIEW OF MALAYSIA CONDITION



Human Development Index 2024

Rank

63/193

Life Expectancy

76.3

Expected Years of Schooling

12.9

Per Capita (US\$)

13,142

GLOBAL PEACE INDEX 2024

Country Rank

10/163

GPI Score

1.427/5

Corruption Perception index 2024

Country Rank

57/180

CPI Score

50

WHAT WE NEED?

Good Governance	
POLITICIANS	Serve the people over self
CIVIL SERVANTS	First class public service delivery
BUSINESSMEN	Win contracts on merit, honest and trustworthy
RELIGIOUS LEADER	Guide followers to the right path
LAW ENFORCEMENT	Enforce the law without fear or favor
COMMUNITY	Enjoy quality of life
YOUTH	Inspired and responsible future leaders



OUTCOME

COUNTRY	Prosperous, advanced and secure
GOVERNMENT	Efficient and effective
BUSINESS	Attractive and successful
PEOPLE	High quality of life and safe



ASSESSMENT OF OUR CURRENT SITUATION



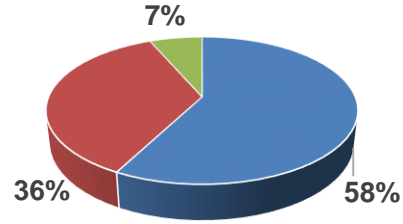
shutterstock.com - 294051875

PWC 2020 Fraud and Economic Crime Survey (Malaysia)

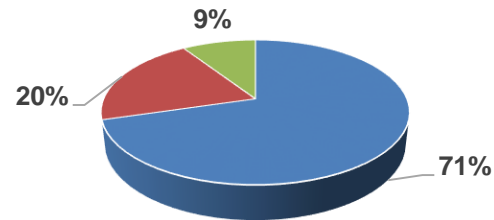
PERCEPTION

Q: ARE THE FOLLOWING STATEMENTS AN ACT OF CORRUPTION?

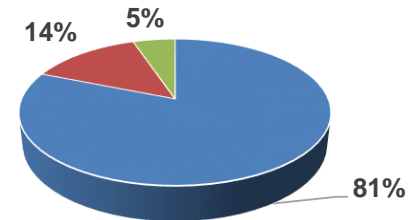
**Accepting gifts
In the form of
money, goods
or services for
services rendered**



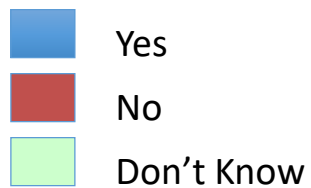
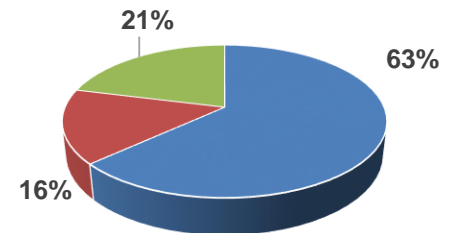
**Using office
Funds/money for
personal interest**



**Forcefully obtaining money,
goods
or services from clients**



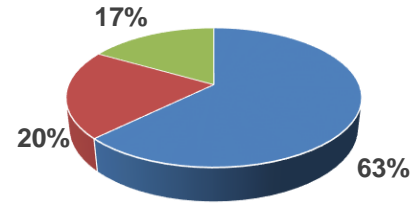
**Directly involved in the process
of awarding contracts to family
members**



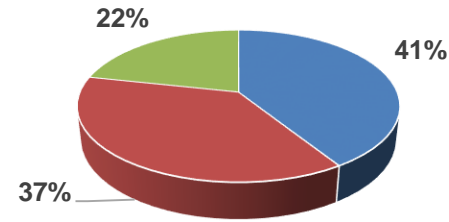
PERCEPTION

Q: ARE THE FOLLOWING STATEMENTS AN ACT OF CORRUPTION?

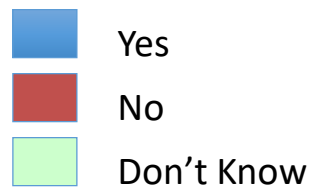
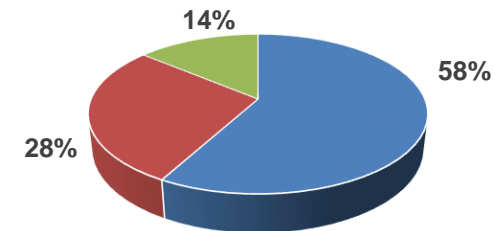
Directly involved in the process of appointing family members to fill vacancies at the office



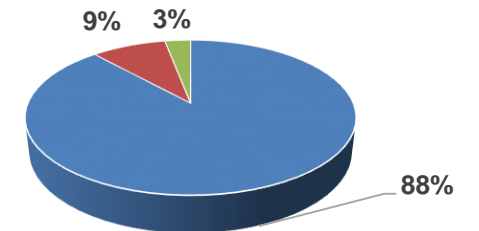
Submitting claims for outstation accommodation when accommodation is provided by the organizer



Taking or using office equipment (e.g.: thumb drive, printer toner etc.) for personal use



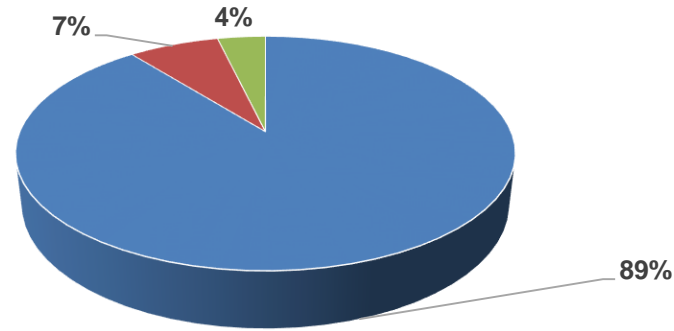
Enforcement Officers using threat / intimidation to obtain money, goods or services



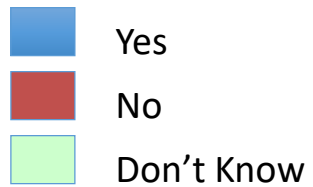
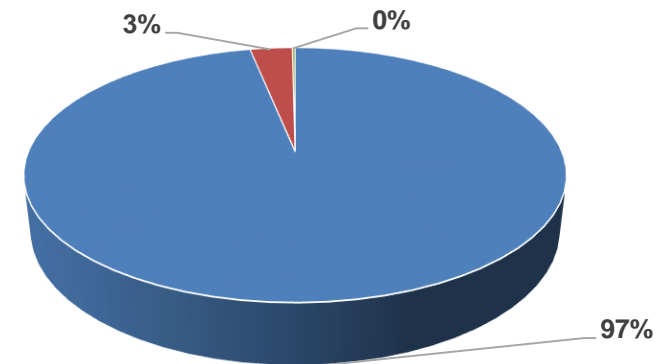
PERCEPTION

Q: ARE THE FOLLOWING STATEMENTS AN ACT OF CORRUPTION?

Using power / position to obtain certain gains / benefits



**Money politics
(e.g. giving incentives in order to obtain / buy votes)**



FRAUD, CORRUPTION AND OTHER ECONOMIC CRIMES

Of the fraud, corruption or other economic crimes experienced by your organisation in the last 24 months, which was the **most** disruptive/serious in terms of the impact on your organisation (monetary or otherwise)?



2018 : 22%

Asset Misappropriation



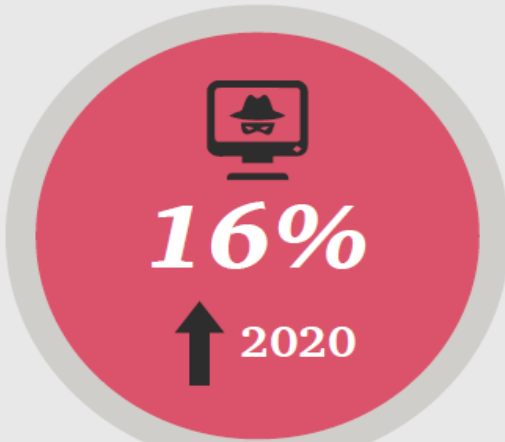
2018 : 14%

Bribery and Corruption



2018 : 16%

Customer Fraud



2018 : 8%

Cybercrime

MALAYSIA BUSINESS ENVIRONMENT HAS SIGNIFICANT CHALLENGES

Malaysian respondents that have been asked to pay a bribe

2018
11%

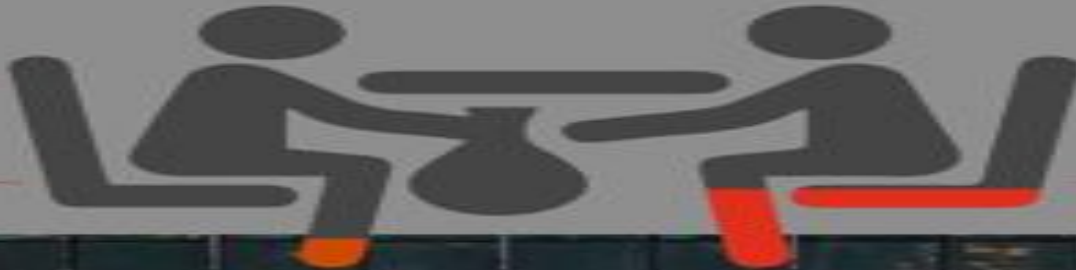


2020
25%



Malaysian respondents that have lost business opportunities because competitors paid a bribe

2018
11%

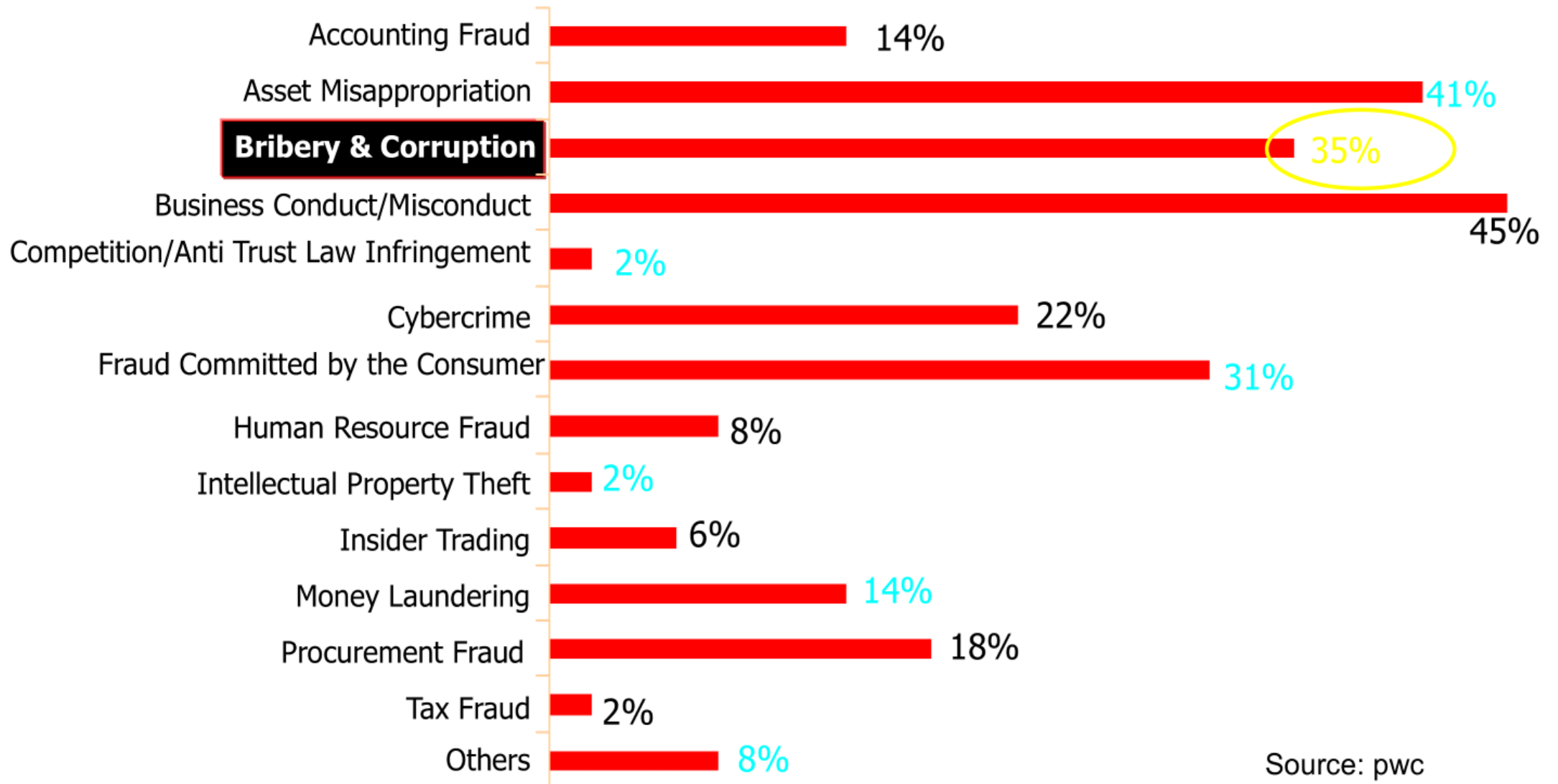


2020
30%










TYPES OF FRAUD & ECONOMIC CRIMES EXPERIENCED BY ORGANIZATION

[Global Economic Crime & Fraud Survey 2021]



Source: pwc

Framework

<p>VISION</p>					<p>Towards a Corrupt-Free Nation</p>			
<p>MISSIONS</p>	<p>To Uphold The Rule of Law</p>		<p>To Improve Government Efficiency, Transparency and Accountability Based on Good Governance</p>		<p>To Create Clean Business Environment</p>			
<p>GOALS</p>	<p>Accountability and Credibility of Judiciary, Prosecution and Law Enforcement Agencies</p>		<p>Efficient and Responsive in Public Service Delivery</p>		<p>Integrity in Business</p>			
<p>PRIORITY AREAS</p>	 <p>Political Governance</p>	 <p>Public Sector Administration</p>	 <p>Public Procurement</p>	 <p>Legal and Judicial</p>	 <p>Law Enforcement</p>	 <p>Corporate Governance</p>		
<p>STRATEGIES</p>	<p>Strengthening Political Integrity and Accountability</p>	<p>Strengthening the Effectiveness of Public Service Delivery</p>	<p>Increasing the Efficiency and Transparency in Public Procurement</p>	<p>Enhancing the Credibility of Legal and Judicial System</p>	<p>Institutionalising the Credibility of Law Enforcement Agencies</p>	<p>Inculcating Good Governance in Corporate Entity</p>		

INTEGRITY TOOLKIT

INTEGRITY Assessment Tool

To assess the state of integrity by identifying the gaps and obstacles faced by the organisation to achieve high ethical standards



ORGANISATION LEVEL

Best practices in ethics and integrity and can be made examples for the whole world

A strong approach by looking at ethics and integrity systematically

The start of a core programme and moving toward healthy direction

Compliance thinking level but only as a symbolic act

Zero start in work ethics and integrity





Good Governance Principles

T

Transparency

To uphold the principle of transparency to restore people's trust in the Government.

R

Reinforce Accountability

To ensure leaders in the public sector take responsibility in every decision made.



Good Governance Principles

T R E E

E

Efficiency

To measure on the implementation of Government policies that have a positive impact and in which the resources utilised in an optimal manner for the betterment of the country and people.

E

Effectiveness

To ensure that every policy and initiative that is decided is implemented in line with their intended purpose and is carried out effectively through strategic and systemic periodic monitoring.

Source: National Centre for Governance, Integrity and Anti-Corruption (GIACC), 2021, *The Malaysian Governance Indicators 2020*, page 3.

NATIONAL ANTI-CORRUPTION STRATEGY 2024 - 2028

GOVERNANCE AND FORMS BUSINESS OWNERSHIP

	Sole proprietorship	Partnership	Corporation
Business owner	Single owner	Partners	Shareholders
Owner's liability	Unlimited	Unlimited	Limited
Easy access to capital market?	No	No	Yes
Is management and ownership separate?	No	No	Yes

PUBLIC LISTED COMPANIES BURSA MALAYSIA

Year	Listed	Delisting Company
2024	1033	27
2023	1022	24
2022	1001	21
2021	949	20
2020	936	17
2019	929	14
2018	915	11
2017	905	12
2016	904	9

SEPARATION OF OWNERSHIP AND CONTROL

The thousands, or more, investors who own public firms could not collectively make the daily decisions needed to operate a business. Therefore:

PRINCIPLE

The shareholders

- Contribute capital
- Owners of the firm
- Limited involvement in co affairs
- Limited liability

AGENT

The officers (or executives)

- contribute expertise and labor
- control the firm

Corporation

Shareholders

BOD

Employees

CEO

Auditor

Creditors

Analyst

Suppliers

Banker

Customers

Government

SUCCESSFUL CORPORATION

What makes one corporation successful?

its capital? its resources? or
its ability **TO MAKE GOOD DECISION** to
organize, administer, take risks, produce and
distribute resources efficiently



MS ISO 9001:2015 REG. NO. KLR-0500197

FORBES ASIA'S UNDER A BILLION 2022

Seven Malaysian companies make it to Forbes Asia's Best Under A Billion 2022

<u>NAME</u>	<u>COUNTRY/TERRITORY</u>	<u>SALES</u>	<u>NET INCOME</u>	<u>MARKET VALUE</u>
CE Technology	Malaysia	\$31 M	\$9 M	\$87 M
D&O Green Technologies	Malaysia	\$204 M	\$27 M	\$1.13 B
Greatech Technology	Malaysia	\$97 M	\$34 M	\$1.1 B
Kim Loong Resources	Malaysia	\$410 M	\$33 M	\$425 M
Tashin Holdings	Malaysia	\$94 M	\$15 M	\$43 M
UG Healthcare	Malaysia	\$251 M	\$88 M	\$102 M
ViTrox	Malaysia	\$164 M	\$41 M	\$1.68 B

Who are the decision makers?

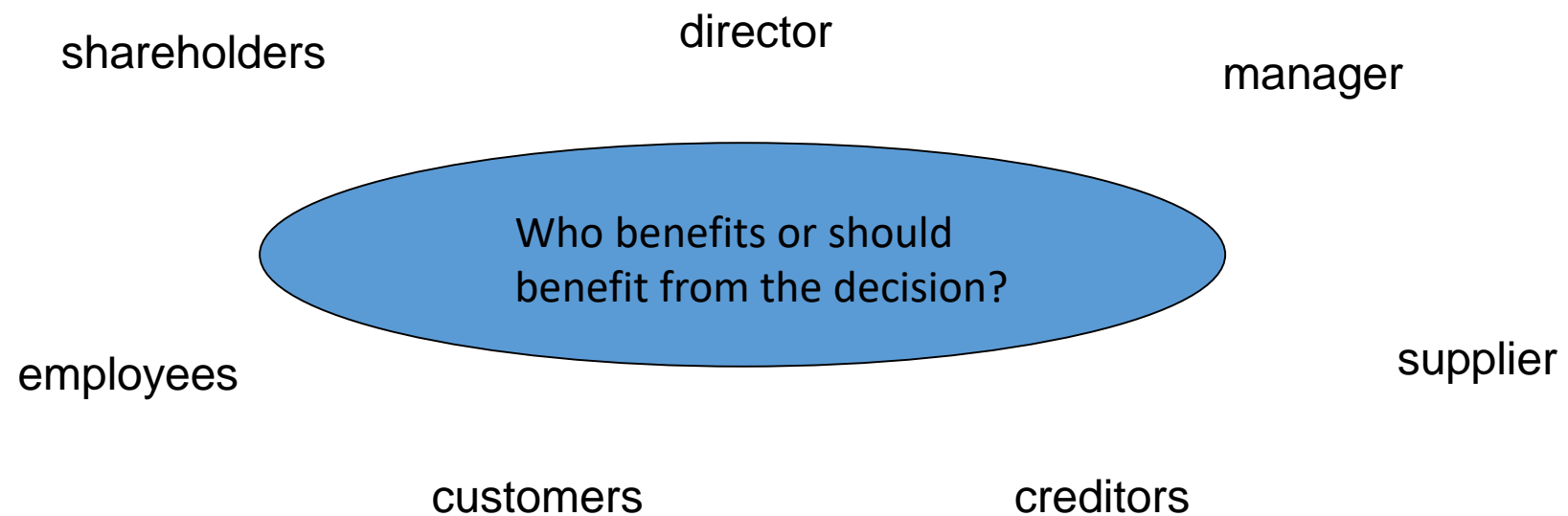
Shareholder

Manager

Director

DECISION MAKING IN PRIVATE SECTOR

Decision ...in the best interests of ???????



Governance and Management

- **Governance**

“where the co is going”

- external focus
- Open system
- Strategy-oriented
- Process, structure and relationship which BOD oversees what executives do

- **Management**

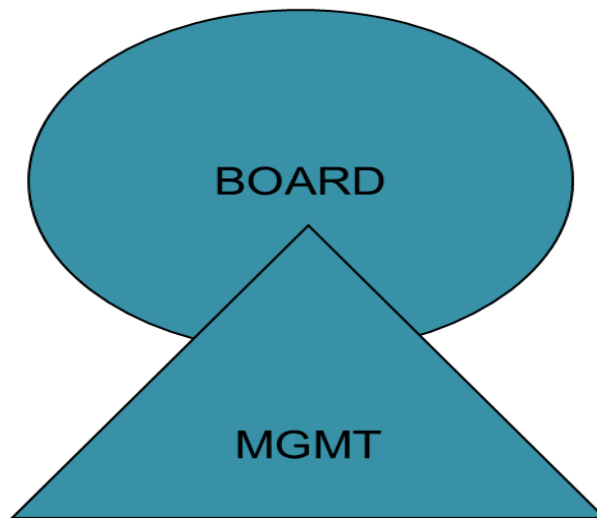
“getting the co there”

- internal focus
- closed system
- task-oriented
- What executive do to define and archive the objectives of the co

GOVERNANCE VS MANAGEMENT

Governance and Management

Governance



BOARD

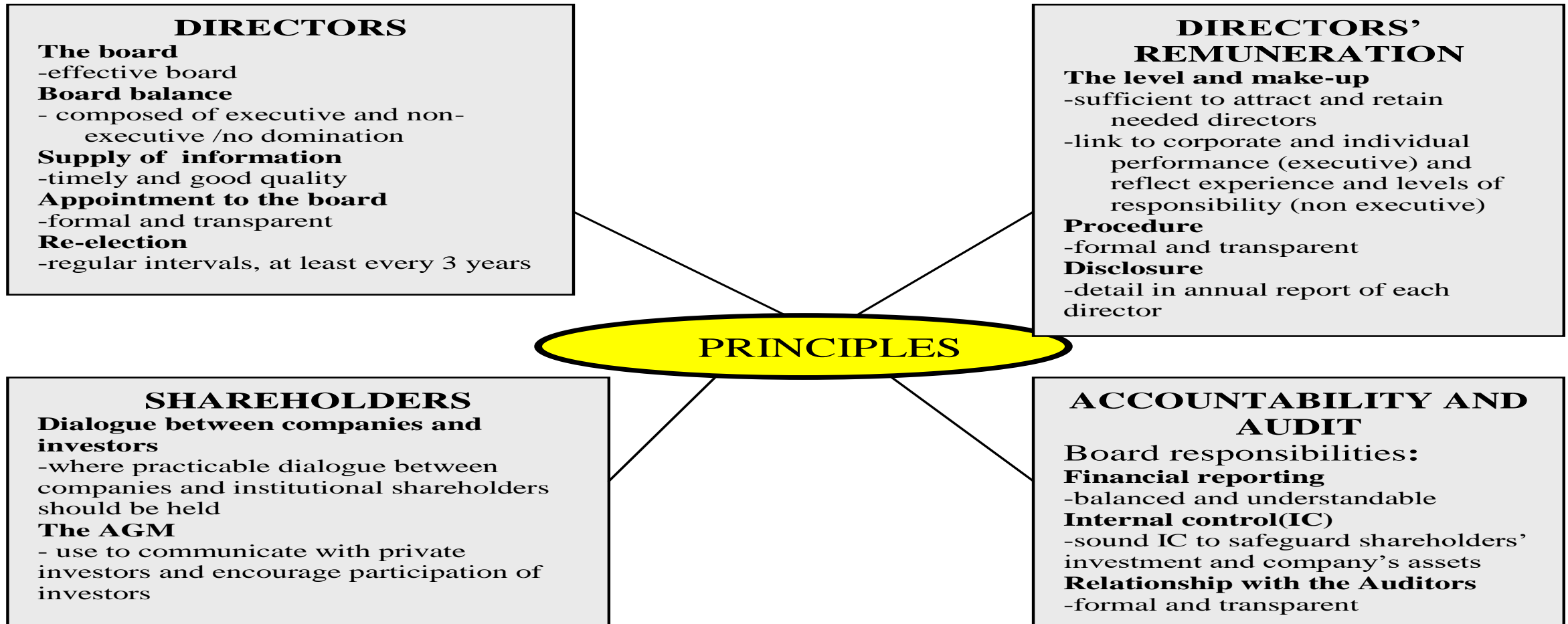
to see that it is
being run well
in the right
direction

MGMT/
EXECUTIVE

to run the co

(Tricker, p.44)

PRINCIPLES OF MALAYSIAN CORPORATE GOVERNANCE



GOVERNANCE MECHANISM IN PRIVATE SECTOR

Internal Governance Mechanism

Board Structure
Board Composition
Concentrated Ownership
Executive Shareholding
Executive Remuneration
Internal Audit
Audit Committee

External Governance Mechanism

Institutional Investor
External Audit



MS ISO 9001:2015 REG. NO. KLR-0500197

BOARD COMPOSITION AND CORPORATE SCANDAL

Board of five companies in the year before the scandal hit each of the co.

Company	% Outsiders	% Dir w/ Shareholdings	Board Size	CEO Duality
Enron	86%	100%	14	No
WorldCom	75%	100%	12	No
Global Crossing	73%	91%	11	No
Qwest Communications	64%	92%	14	No
Tyco International	73%	100%	11	Yes

Thank you

