

Integrity in Business - The Way Forward

20 March 2001

The Need for Integrity in Business

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Focussing on Law, Business Ethics and Corporate Governance

Agenda

- Law, Business Ethics and Corporate Governance
- Profits, Business Ethics and Corporate Governance
- Corporate Governance Reform in Malaysia



Law and Business Ethics

Law



- A. What one is required to do
- B. What one is allowed to do

Ethics



- A. Doing more than what is required
- B. Doing less than what is allowed



Law and Business Ethics

- Court of law vs court of public opinion
- When observance of ethics is low, new laws will have to be created



A definition of Corporate Governance

“...the process and structure used to direct the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders”



Objectives of corporate governance

(I) Enhancing business prosperity

- **Cannot be dictated by law**
- **Function of people, teamwork, leadership, enterprise and experience**



Objectives of corporate governance

(II) Enhancing accountability

- **Requires rules and regulators**
- **Duty to shareholders prescribed by law**

Corporate governance extend beyond legal requirements

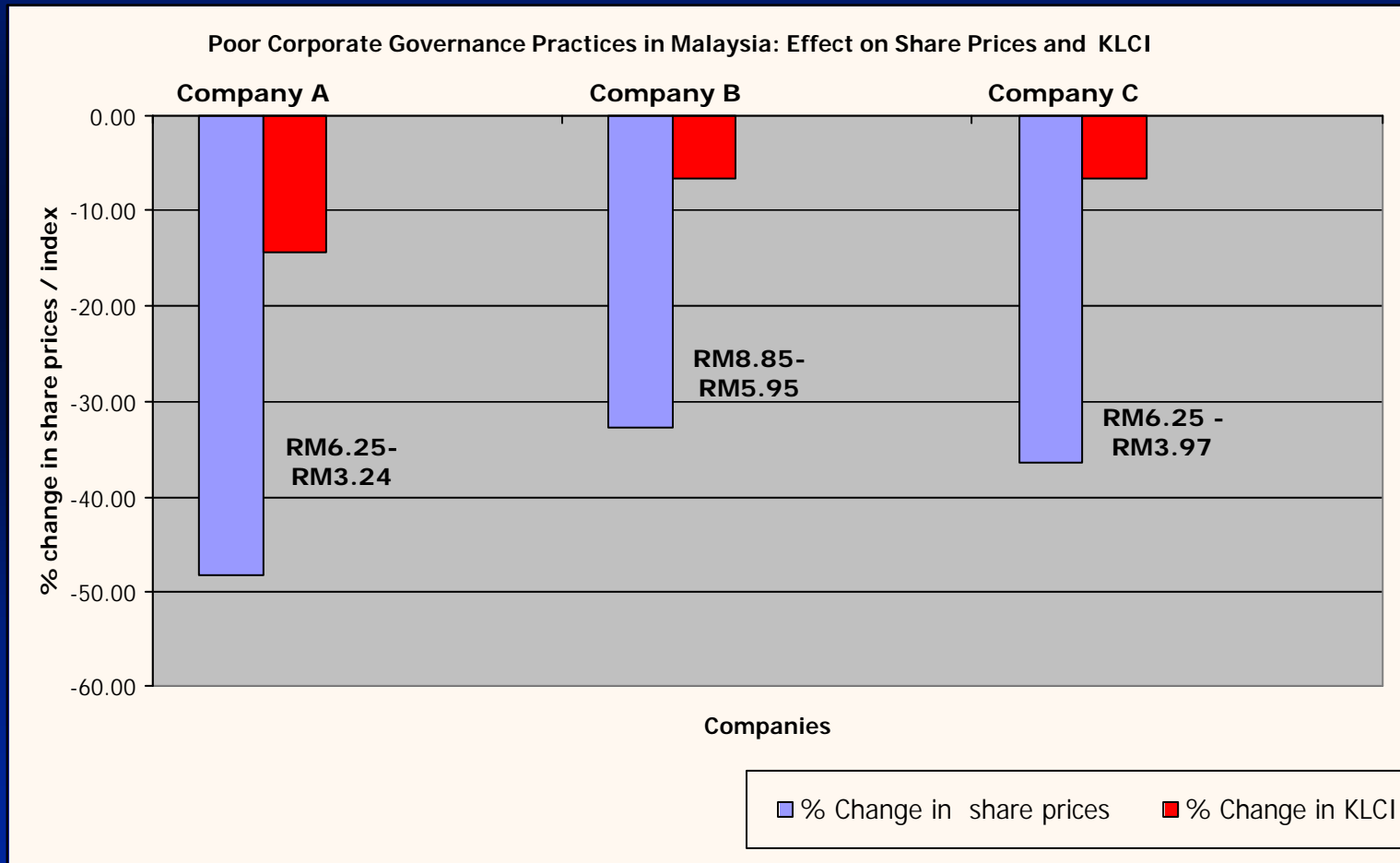


Ethical aspects of corporate governance found in 4 Core Values

- Responsibility
- Transparency
- Accountability
- Equitable treatment



Impact of poor governance practices

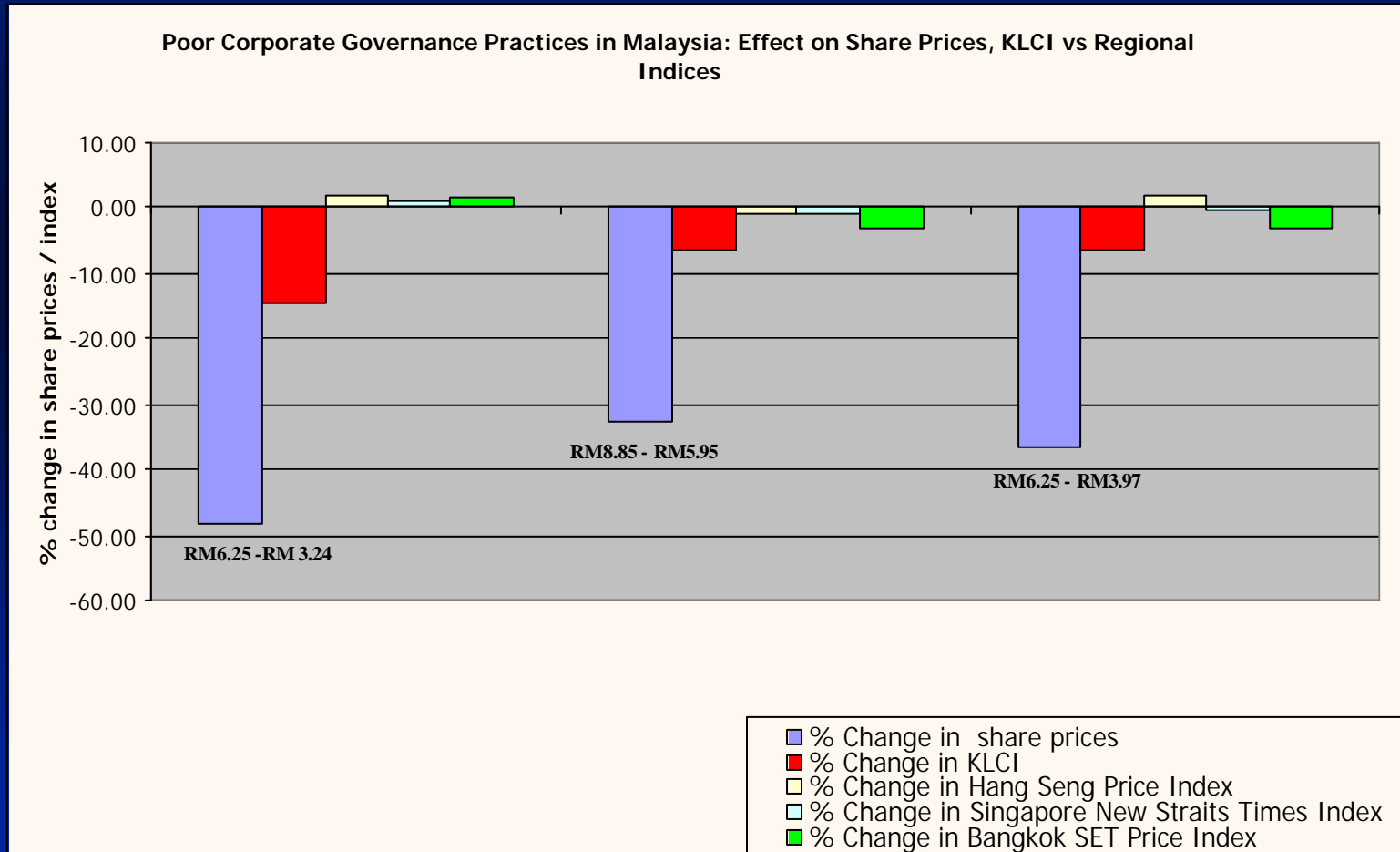


Poor corporate governance impact a company in many ways

- Increased cost of raising capital
- Diminished value for mergers/strategic partnerships
- Spill-over negative effect on consumers, creditors, business partners etc.



Poor corporate governance practices affect the entire market



Globalisation has made the effects of bad corporate governance more painful

- Growing importance of institutional investors
- Integration of financial markets
- Increased shareholder activism
- Increased competition for capital



An increasingly globalised environment calls for a new corporate philosophy...

...A need to reinvent the corporate enterprise...to efficiently meet emerging global competition. The world's economies are tending towards market orientation where companies are less protected by traditional and prescriptive legal rules and regulations....Hence there is a need for companies to be more efficient and more well managed than ever before....

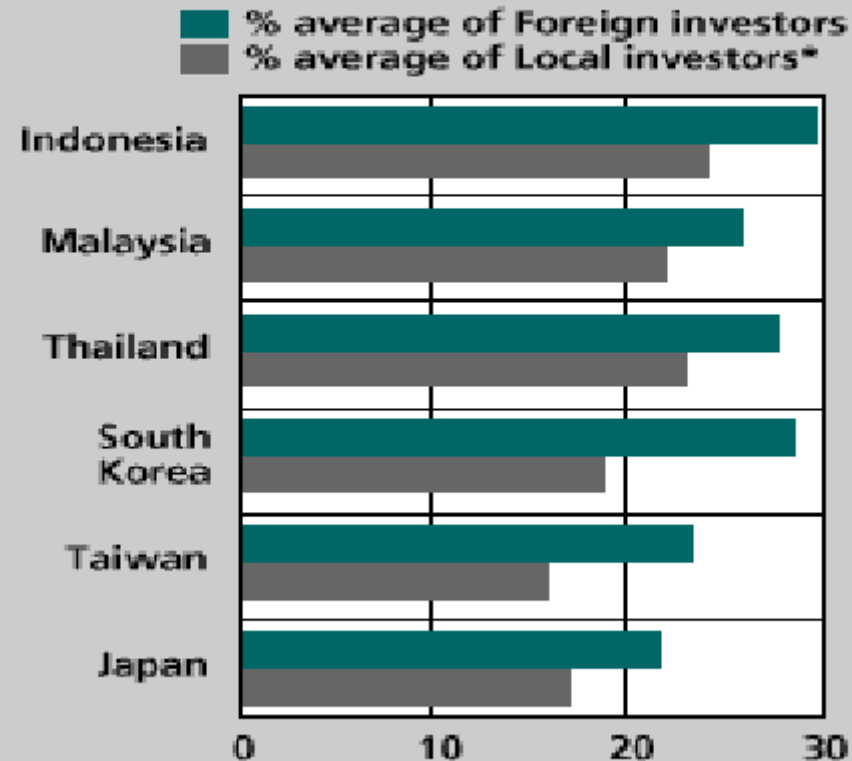
Malaysian Code of Corporate Governance



There is a premium in good corporate governance

COST OF GOOD GOVERNANCE

The premium that investors are willing to pay for good corporate governance varies by country



*Defined as those based in local region
Source: McKinsey & Co.



Corporate governance reforms efforts in Malaysia commenced long before the crisis

- Phased shift to Disclosure-Based Regulatory environment
- Strengthening laws and accounting standards
- Code of Ethics for Directors
- Requirement for independent directors and audit committees
- Establishment of Malaysian Institute of Corporate Governance

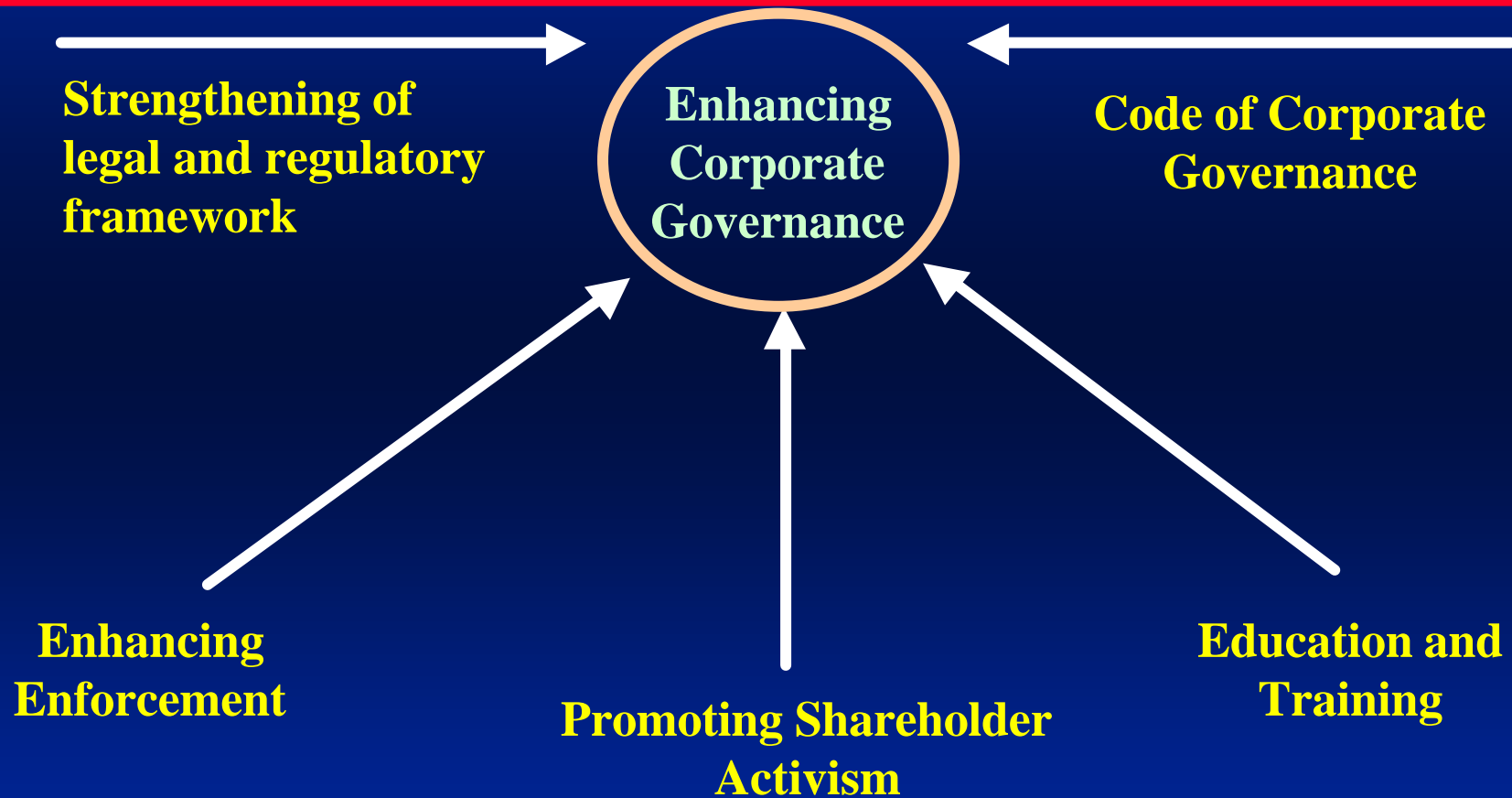


The crisis underscored the need for a more holistic approach

- Establishment of High Level Finance Committee on Corporate Governance
- Driven by government but with top level participation from industry and professional bodies
- Finance Committee Report released in March 1999



The Finance Committee Report adopted a multi-dimensional approach



First Phase of Implementation is now close to completion

- Malaysian Code of Corporate Governance in place
- Amendments to laws effected on phased basis
- KLSE Listing Rules significantly revamped
- Training and Publicity programme on-going
- Minority Shareholder Watchdog Group formed

An Implementation Project Team monitors progress



Efforts to enhance corporate governance is an on-going task

- Continued visible commitment to implementation is critical
- Continued pressure for high standards of corporate governance
- Effective and committed enforcement by regulators
- Public awareness about reform efforts crucial
- On-going education and training
- Increase in shareholder activism



The Capital Market Masterplan calls for further efforts in enhancing corporate governance

- Improve communication channels between companies and their shareholders
- Further measures to improve dissemination of material and relevant company information
- Further enhancements to disclosures in annual reports by public listed companies



The work of enhancing corporate governance is never done



Thank you

SC's Mission Statement

To promote and maintain fair, efficient, secure and transparent securities and futures markets and to facilitate the orderly development of an innovative and competitive capital market

