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"Towards Enhancing Shareholder Value"

**Speech by Encik Ali Abdul Kadir, Chairman of the Securities Commission
at the launch of the
Shareholder Value Survey Report "Towards Enhancing Shareholder Value"
by PricewaterhouseCoopers Malaysia**

**8 March 2000
Nikko Hotel, Kuala Lumpur**

Preamble

Ladies and gentlemen: I would like to wish all of you a very good morning. It gives me great pleasure to be here today on the occasion of the launch of PricewaterhouseCooper's Shareholder Value Survey Report. Those of you who have been following developments in this area would be aware that the SC takes a very supportive stance in the area of shareholder value recognition, with a view towards elevating the standards of corporate practices and transparency to globally competitive levels. As such, I am happy to see the increasing awareness of the need for Malaysian public corporations to exercise greater consideration of shareholder value enhancement, as shown by the publication of this survey. In this regard, I would like to thank PricewaterhouseCoopers for commissioning this timely survey.

Why focus on enhancing shareholder value?

Some of you may be asking, why focus on enhancing shareholder value? With the recent proliferation of shareholder value management systems such as Economic Value Added (EVA) and many others, it is no surprise that many people have the perception of shareholder value management as a passing fad that, in time, will lose its novelty appeal. It is perhaps a paradox that the strength of the marketing that has accompanied many of these shareholder value schemes has also been their weakness, bringing about the perception that their basic usefulness will evaporate as people jump off the bandwagon.

Unfortunately, this disregards the notion that the fundamental goal of all business is to maximise shareholder value. To my mind, the basic concept of shareholder value maximisation is one of the principal cornerstones underlying the long-term development of the capital market. I say this because the increasing emphasis by global companies on shareholder wealth creation means that the competition for capital will become increasingly focused on the priority placed by company management on the welfare of their shareholders. Domestic companies that do not focus on maximising shareholder value will not be able to compete with other more cost-efficient and higher-returns firms. Ignoring shareholder wealth creation may affect the long-term development of the capital market if it leads to the diversion of resources to other avenues.

I would also like to touch on another aspect of corporate practice, that is, the effective governance of local company management. In markets with a strong culture of shareholder activism, investors typically ensure that companies clearly link the objectives of their key



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processes to long-term value. In Malaysia, however, the demands for accountability have not been as prevalent and this has facilitated a bias towards short-term trading rather than long-term investment. Without sufficient shareholder pressure on local companies to focus on wealth-enhancing activities and to reward their employees' efforts towards value creation for shareholders, Malaysian companies gradually become less economically viable long-term investments and will have increasing difficulty in attracting talented senior management.

In a post-crisis environment such as ours, we need to focus our efforts on developing a broader and deeper capital market that is solidly grounded on such fundamental economic-and I daresay common-sense-principles. Creating an attractive investing environment for shareholders will help foster a more transparent, accountable and performance-oriented corporate sector that will be better prepared to face the challenges of global competition for capital. That is why I am glad that this survey sheds further light on the extent of shareholder value recognition within the Malaysian corporate sector, as well as highlighting potential areas where greater awareness and improved information is needed.

Implications of the survey findings for the Malaysian capital market

How, then, do we move forward from here? I believe that there are several implications arising from this for the Malaysian capital market. It has always been the SC's stance that shareholder value creation ought to be a key consideration in the decision-making process in Malaysian corporations, in order to lay a firm foundation for the robust growth of the domestic capital market. With this in mind, we are continuously examining areas where corporate governance and transparency can be further improved to the mutual benefit of both Malaysian corporations and investors.

At this stage, the SC is focusing on promoting greater awareness of the importance of good shareholder value management by local firms through its ongoing education efforts. In line with the additional information needs identified in the survey, we are also looking to encourage enhanced corporate accountability to investors as part of our overall regulatory efforts to promote and maintain a transparent and competitive market. At this juncture, I would like to encourage Malaysian corporations to do their part by, for instance, improving communications between their companies and investors. This may perhaps involve enhancing the public dissemination of their performance in this regard, possibly with the disclosure of changes in shareholder value in their periodic reports. There is certainly a wide choice of methods and means of doing so!

I would also encourage investors and fund managers to play a more active role in assessing whether the firms they invest in place due priority on long-term value creation. With the ongoing implementation of the SC's Disclosure Based Regulation (DBR) programme, we foresee investors increasingly taking on the responsibility of assessing the merits of their investments. In short, there should be an even balance of responsibilities between issuers and investors alike: higher standards of corporate disclosure must be accompanied by higher standards of investment assessment. This is, I feel, a natural progression in line with our ongoing efforts towards better corporate governance.



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Concluding remarks

Finally, I would like to conclude by saying that while efforts towards shareholder wealth maximisation have been actively embraced in most developed markets, the concept is less often an explicit objective in Malaysian firms. This needs to be addressed in view of the need to position the Malaysian corporate sector at a level where it able to compete effectively for long-term capital. My wish is to see our combined efforts bringing about an even greater degree of public confidence in the wealth-enhancing potential of long term investing in Malaysian firms. And with this, I am very happy to officially launch the PricewaterhouseCoopers Shareholder Value Survey Report.

Thank you.

Securities Commisison
8 March 2000