

**DERAF TEKS UCAPTAMA YAB TIMBALAN PERDANA
MENTERI MALAYSIA “MANAGING CORPORATE
GOVERNANCE AMID THE NATIONAL ECONOMIC
TRANSFORMATION”**

**COMPANIES COMMISSION OF MALAYSIA NATIONAL
CONFERENCE 2012**

**SELASA, 12 JUN 2012
SIME DARBY CONVENTION CENTRE,
KUALA LUMPUR**

Yang Berhormat Dato’ Sri Ismail Sabri bin Yaakob, Menteri Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan; Y. Bhg. Dato’ Saripuddin bin Kassim, Ketua Setiausaha Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan merangkap Pengerusi Suruhanjaya Syarikat Malaysia (SSM); Y. Berusaha Encik Mohd Naim bin Daruwish, Ketua Pegawai Eksekutif SSM.

Tuan-Tuan dan Puan-Puan yang dihormati sekalian;

Assalamualaikum Warahmatullahi Wabarakatuh, selamat pagi dan Salam 1 Malaysia.

Terlebih dahulu, saya ingin merakamkan setinggi-tinggi penghargaan kepada YB Dato’ Sri Ismail Sabri bin Yaakob, Menteri Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan dan SSM kerana sudi menjemput saya untuk menyampaikan ucapan Persidangan Kebangsaan Suruhanjaya Syarikat Malaysia 2012 (*Companies Commission of Malaysia National Conference 2012*).

Peranan SSM di dalam memacu ekonomi negara tidak dapat dinafikan. Hari ini, SSM bukan sahaja mempunyai mercu korporatnya sendiri di Kuala Lumpur Sentral, malahan telah berjaya memajukan sistem penyampaian perkhidmatan pelanggannya melalui pengenalan inisiatif-inisiatif seperti Pemerbadanan Syarikat 1 Hari, e-Lodgement, MyCoID, e-Info, perkhidmatan kaunter bergerak, penubuhan Akademi Latihan SSM dan lain-lain. Saya amat berbangga dengan pencapaian-pencapaian tersebut. SSM merupakan institusi ekonomi penting di dalam rangkaian ekonomi negara.

Hadirin dan hadirat sekalian,

Izinkan saya menyampaikan ucapan seterusnya di dalam Bahasa Inggeris.

Malaysia is undergoing a massive economic restructuring at a scale never seen before since the nation attained independence in August 1957. We started as a factor-based economy, depending mainly on agricultural yields such as rubber and palm oil. We then boldly ventured into manufacturing and started to talk about productivity and efficiency. The next step in Malaysia's economic evolution is innovation.

The New Economic Model (**NEM**) which was introduced in March 2010, serves as a general economic blueprint for the country. It identifies Malaysia's current global positioning, the prevailing and potential global scenario, our advantages as a nation and more importantly how to reposition the country's economy.

The Economic Transformation Programme (**ETP**) meanwhile which was unveiled in October 2010 clearly outlines the need for the country to step out from the middle-income trap by focusing on twelve (12) national key economic areas (**NKEAs**) namely oil, gas and energy, financial services, wholesale and retail, palm oil and rubber, tourism, electrical and electronics, business services, information and communications technology, education, agriculture, healthcare and Greater KL/Klang Valley.

Simultaneously, the nation's competitiveness is currently being enhanced through six (6) strategic reform initiatives namely competition, standards and liberalization, public finance, public service delivery, narrowing the disparity between the rich and the poor, reducing the Government's participation in business and human capital development.

The ETP and NEM can be viewed as a set of economic jigsaw puzzles. They complement and converge with each other to form the desired state of utopia for Malaysia that is Vision 2020. The signs of success are already emerging. In 2011 for example, the total of private investment in the country stood at RM94 billion, surpassing the earlier target set at RM83 billion. The GNI contribution from the National Key Economic Areas reached RM589 billion, surpassing the target of RM494 billion. 70% of the national GNI is derived from the 12 NKEAs. Malaysia has also climbed up the rankings of several key global indexes. In the World Economic Forum's *Global Competitiveness Report 2011* for example, Malaysia rose five (5) ranks from 26th to 21st place among 142 countries. In the World Bank's *Doing Business 2012*, we improved from 23rd to 18th place out of 182 economies. In the 'Starting a Business' indicator, we leapfrogged from 113th to 50th place, partly thanks to SSM's reforms in service delivery.

In pursuing such the innovation agenda under the economic transformation plan, our foundations must be strong. If one were to build skyscrapers or offshore oil drilling platforms for example, their foundations must be able to not only hold the size and weight of such structures but must also be able to withstand all conceivable adversities such as strong wind, earthquake, tidal waves and others. In the context of the national economy, its foundation lies in corporate governance.

The conventional wisdom on corporate governance is that it prevents or at least minimizes the occurrence of economic downfalls and corporate mishaps. The phrase '*corporate governance*' is usually associated with major corporate malfunctions such as Enron, Worldcom, Parmalat and Satyam. Domestically, Malaysia is also not spared of its own smaller versions of corporate missteps. More often than not, existing regulatory mechanisms such as the duties and responsibilities of directors, auditors and company secretaries, *business judgement rule* as well as the requirements for lodgement and disclosures are perceived as only relevant to prevent corporate downfalls. Corporate governance as such merely serves as a form of *safety net*. To some, corporate governance is burdensome and substantially interferes with their quest for profitability.

Ladies and gentlemen,

In the 21st century business environment, a new paradigm shift must be introduced to corporate governance. Corporate governance must not

only be perceived as a tool to mitigate risks, serving only as *safety net* but instead, a strategic mechanism and *offensive tool* to further the national economy and enhance business operations. Closer scrutiny of the IMD World Competitiveness Yearbook as well as the global indexes cited earlier reveals that apart from key economic and business considerations such as GDP growth, inflation rate, tax regime, public service delivery system and infrastructure, assessments are also made on corporate ethics, corporate audit and reporting practices, efficacy of the board of directors, investors' protection, minority shareholders' protection and standard of disclosure. These are all linked to the topic of corporate governance. Positive and favourable assessment in the aforesaid areas will cast positive impact to a country's global ranking.

Taking the concept down to individual companies, good corporate governance practices carry excellent business value propositions. Companies which practise good corporate governance could be investors' magnet. They also have relatively easier access to credit facilities as banks and financial institutions will be at ease in granting them. Employees feel proud of their companies, motivating them to work harder, become loyal and more productive. Such companies also enjoy good public reputation. Talented university graduates would want to be part of institutions which carry positive vibes. Internal check and balance would ensure objective and correct business decisions are made. The list of economic benefits of corporate governance as such is endless. Simply put it, corporate governance makes perfect business sense.

Apart from appreciating the benefits of corporate governance, the Malaysian corporate community must first understand its true and correct meaning. Most often cite the definition of corporate governance as propounded by Sir Adrian Cadbury in the famous *Cadbury Report*, published in 1992. The Cadbury Report defines corporate governance as “.....*the system by which companies are directed and controlled*”. It also states:

“The shareholders role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to

shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting."

This definition and concept of corporate governance has substantially influenced numerous other definitions of the term by corporate regulators, academicians and corporate leaders worldwide.

When the country experienced an economic turbulence due to the 1997 - 1998 Asian Financial Crisis, it prompted the country's leadership to seriously look into corporate governance. A High Level Finance Committee on Corporate Governance was formed. Upon assessment of the national state of corporate governance in the country, one of the key proposals was to define corporate governance.

In my humble opinion, it was the most important step taken. Corporate governance has become a buzzword ever since the New York Exchange stock market crash in 1929. There are thousands of definitions and concepts of corporate governance. To move forward, Malaysia needs a common stance as to what corporate governance is. A shared vision is crucial to enable the message to not only be effectively conveyed but to also enable subsequent actions towards improving the national corporate governance framework to be undertaken.

Friends and colleagues,

The High Level Finance Committee in 1999 has defined corporate governance as:

"The process and structure used to direct and manage 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 interests of other stakeholders."

This definition echoes a heavy undertone of Lord Cadbury's concept of corporate governance. Fundamentally, corporate governance is about process and structure. In the wake of the Asian Financial crisis as well

as other corporate downfalls, having a solid process and structure was synthesized as providing the solution.

Like most ideas and things, over a period of time, corporate governance evolves. Its definition and concept must be re-looked and where necessary, rejuvenated to ensure relevancy. It begs the question on why, despite the strengthening of the legal framework, corporate governance breaches continues to be an issue. What is missing from the ingredients? Aren't processes and structures in the forms of laws, regulations and policies sufficient? Having read the numerous corporate misfeasance that continue to plague the global and domestic economy, I can't help but come to conclude that the national definition of corporate governance must be re-looked into.

Perhaps one of the missing key ingredients is integrity. Processes and structures, however good they may be, can still be compromised or circumvented if the role-players do not possess integrity. Fundamentally, integrity refers to self-discipline and adherence to moral values and ethical principles. Economic role-players who possess integrity will not easily succumb to temptations, monetary, pressure or otherwise. They will stick to doing what is right and not what is convenient. This ingredient in my view is far superior to any form of process or structure. Somehow, the word integrity should find its way into the 21st century definition of corporate governance. I take this opportunity to urge SSM to rejuvenate the national definition of corporate governance which to date, is already more than a decade old. It is timely to redefine corporate governance to also include flavours of ethical values, honour and leadership.

My call for the new definition of corporate governance is not merely to achieve shared vision. We need a new definition to support the numerous economic transformation initiatives and entry point projects (**EPPs**) currently taking place. While Malaysia, as an open economy, is very much exposed to many forms of economic crisis and risks, we should at the very least be able to avert those which originate within our shores. We are not able to prevent global economic turbulence such as the sub-prime mortgage crisis or the Eurozone economic upheavals, but we can certainly take proactive measures in preventing corporate governance decadence amongst our local companies. And the first step lies in each and every one of you present today.

Unbeknown to most, Government's policies and the various corporate regulatory framework are not the country's first line of defence against averting corporate governance crisis. Instead, it depends

substantially on the key players of the economy. The company directors, CEOs, COOs, CFOs, top management, company secretaries, auditors and even shareholders each have a role to play to ensure the market remains conducive so that it can continuously generate benefits in the forms of profit, employment and national economic growth.

We have less than eight (8) years to go before 2020. The clock is ticking. There's a lot at stake for Malaysia. At this juncture, failure is not an option. It's time for the Government, the private sector and *the rakyat* to move together as one. Let's live, breathe and nurture corporate governance together.

Wabillahitaufiq Wal Hidayah, Wassalamua'laikum Warahmatullahi Wabarakatuh.