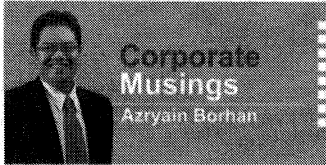


Solutions to corporate governance - Beyond laws and regulations



Mention the term 'corporate governance' and most tend to associate it with the corporate regulatory framework.

Our minds have been oriented to embrace the thinking that corporate laws and regulations are the key solutions to address issues and challenges related to corporate governance. They are perceived as the first and last line of defence against corporate misfeasance.

Most corporate role-players are not well versed with the intricacies of corporate laws and regulations. They are individuals with diverse background, experience and expertise whose main concerns are revenue generation, staying afloat (especially during the period of economic uncertainty) and being competitive.

In addition, they are also bogged down with the requirement to manage various aspects of business operations such as supply chain, human capital, procedures and processes.

The mere mention of laws and regulations will most of the time simply put off their interest on the subject. Regardless, corporate role-players such as the board of directors must possess some knowledge on the relevant provisions of corporate laws and regulations.

To find the solutions to a particular prob-

lem, it is best to not only understand the prevailing scenario but more importantly identify the root cause(s) of such problem. In the field of medicine for example, the key to curing an ailment must first be preceded by accurate diagnosis. Likewise with corporate governance, the root cause of the problem pertaining to it must be identified before the necessary steps to rectify any deficiencies are taken.

Pursuant to the 1997/1998 Asian Financial Crisis for example, the High Level

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Finance Committee on Corporate Governance established by the Ministry of Finance has diagnosed among others that there was a severe absence of processes and structures in companies, leading to their downfall.

Such processes and structures include the framework of duties and responsibilities of the board of directors, asset monitoring mechanisms, disclosure mechanisms and protection of whistleblowers.

The national definition of corporate governance has identified 'process and structure' as the key ingredients in corporate governance. Take note that nothing is mentioned about the corporate laws

and regulations in the definition. More importantly, such 'process and structure' are not meant for compliance purposes but rather, to enable effective management of a company. It can be concluded that our national definition of corporate governance is highly business oriented instead of compliance or regulatory-centric.

Three other strategic initiatives proposed namely the introduction of the Malaysian Code on Corporate Governance, comprehensive corporate law reform and

old problem. It warrants revisiting the wisdom and solution derived from the Asian Financial Crisis.

YAB Deputy Prime Minister in June 2012 has alluded that in the context of the 21st century, mere 'process and structure' may no longer be sufficient to ensure corporate governance. I totally agree with his views.

Going back to addressing problems by tackling their root causes, the issues and challenges pertaining to corporate governance is beyond laws and regulations. No matter how good a corporate regulatory framework is crafted, people will always find the way to circumvent it or simple ignore its existence.

As such, the first and last lines of defence in my view lie in each individual. In this respect, (i) Ethics and integrity and (ii) Leadership are of utmost importance. These two areas would not only complement but also strengthen the elements of 'process and structure' in corporate governance.

Corporate laws and regulations are merely catalysts. In the end, it's always the people who drive them. I will elaborate more on ethics and integrity as well as leadership vis-a-vis corporate governance in my next two articles.

Oh, I believe it's not too late to wish all the SMEs and my readers out there a happy and prosperous 2013!

Azryain Borhan is the Director of Companies Commission of Malaysia Training Academy. He firmly believes continuous learning is key to achieving corporate prosperity. Please send feedback to comment@malaysiasme.com.my