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## **Corporate Governance in Malaysia: Issues and Challenges**

### **Isu dan Cabaran Tadbir Urus Korporat di Malaysia**

Nina Nurasyekin Zulkefli\* & SM Abdul Quddus\*\*

#### **Abstract**

Corporate governance is a set of structural process that includes the actions of directing and controlling by the authorized board of directors. In Malaysia, corporate governance is directly under the involvement of the Ministry of Finance, Bursa Malaysia, and Securities Commissions (SC) and Registrar of Company. A good reform of corporate governance in Malaysia is essential to enhance the quality of corporate governance practices after the Asian Financial Crisis 1997. The statistic shows that the low number of Malaysian companies adhered to good corporate governance practices. This poses a question of the extent to what issues and challenges faced by the Malaysian companies reluctantly to adopt a good practice of corporate governance. Hence, the Malaysian government has initiatively introduced Malaysia Code of Corporate Governance (MCCG) as a new code and rules for solving the problems of corporate governance. This study is important to ensure better management of corporate governance of companies in Malaysia, accountability, integrity, and transparency, thereby ensuring the survival of Malaysian corporate governance institutions around the world. The paper uses a qualitative approach. The findings from this study highlight that the introduction of MCCG is tantamount to solve the underpinning problems of the corporate governance system.

**Keywords:** Corporate governance, Malaysia, MCCG, Asian Financial Crisis

#### **Abstrak**

Tadbir urus korporat adalah satu set proses struktur yang merangkumi sistem penyeliaan oleh lembaga pengarah yang diberi kuasa. Di Malaysia, tadbir urus korporat adalah di bawah penglibatan Kementerian Kewangan, Bursa Malaysia, dan Suruhanjaya Sekuriti (SC) dan Suruhanjaya Syarikat Malaysia. Pembaharuan tadbir urus korporat yang baik di Malaysia adalah penting untuk meningkatkan kualiti amalan tadbir urus

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korporat selepas Krisis Kewangan Asia 1997. Statistik menunjukkan bahawa bilangan syarikat Malaysia yang rendah dalam mematuhi amalan tadbir urus korporat yang baik. Ini menimbulkan persoalan sejauh mana isu dan cabaran yang dihadapi oleh syarikat-syarikat di Malaysia yang enggan mengamalkan amalan tadbir urus korporat yang baik. Justeru, kerajaan Malaysia telah memperkenalkan Kod Tadbir Urus Korporat Malaysia (MCCG) sebagai kod baru dan peraturan untuk menyelesaikan masalah tadbir urus korporat. Kajian ini penting untuk memastikan pengurusan tadbir urus korporat yang lebih baik di Malaysia, akauntabiliti, integriti dan ketelusan, serta seterusnya memastikan kelangsungan institusi tadbir korporat Malaysia di seluruh dunia. Kaedah kajian adalah menggunakan pendekatan kualitatif. Dapatan kajian ini menunjukkan bahawa pengenalan MCCG adalah penting untuk menyelesaikan masalah asas sistem tadbir urus korporat.

**Kata Kunci:** Tadbir Urus Korporat, Malaysia, MCCG, Krisis Kewangan Asia.

### 1. Introduction

Corporate governance is not a new phenomenon. This can be trace back to the early 18<sup>th</sup> century in which small businesses and giant corporations are established (Nordberg, 2011, p. 15). Nordberg acknowledged the beginning of corporations was originated from the South Sea Bubble whereby frenzy has developed the sailing vessels that looked for the spices, precious metals, and stone. It has guaranteed the huge profits to its investors. This has referred to the modern corporation yet it has short lifespan due to the long distance shareholders with its operating manager. This experience was deeply evaluated by Adam Smith, the forerunner of the modern economic theory upon the value of joint stock companies (p. 16). Since that, there were existing reforms to improve the lacking structures.

Unexceptionally, the countries in the Southeast Asia region including Malaysia have undergone similar process of corporate governance reforms. These reforms have been heavily influenced by the Asian Financial Crisis 1997. Due to the weak management and effective policies of corporate governance, these Asian countries have adversely affected with the low economic performance and gravely aggravated the financial distress (Azizah & Halimah, 2007; Tengku & Syazwani, 2007; Aida, Armstrong & Clark, 2010 & Zahiruddin & Norlida, 2014). However, there was a study showed that the economic status of Malaysia was apparently inconsistent with other countries where it has remarkably increased at a robust average rate over eight percent per year during the financial crisis (Megat, Keong & Anadarajah, 2002, p. 225). Due to that reason, the World Trade Organization has ranked this Malaysian eco-

conomic performance as the eighteenth largest exporting country in 1997. Regardless, the overall analysis related to this financial distress has described that most of the Asian countries were seeking financial aid to recover their economic development. For example, the Thai Baht was experienced severe devaluation which sought financial aid from the International Monetary Fund (IMF).

Even though initially Malaysia did not deeply effect with above phenomenon, by all means, it has driven the sharp decline in the market stock due to the fear of loss by the major investors. As a result, the Ringgit Malaysia (RM) has suffered the lost over 40 percent of its values against major currencies and interest rates in which were increased to over 12 percent per annum (Megat et.al, 2002, p. 226). The vicious cycle played a vital role in influencing the massive fund withdrawals from the domestic and even in the foreign financial market. The infamous combination of devalue currency, decline domestic market and high-interest rates were weakened the companies' financial structure, hence an appealing impact of poor corporate governance in Malaysia was revealed. Notably, the poor corporate governance alone did not instigate the financial crisis; yet, the excessive lack of transparency, disclosure, and accountability has enhanced the vulnerability in the economic performance of the companies. Thus, it concluded the neglect practices of sound corporate governance have instituted the Asian Financial Crisis 1997 that leading to the foundation of Malaysia Code on Corporate Governance 2000 to resolve the issue (Hadi, Fazilah & Md Ishak, 2004 & Fatt, 2014).

Therefore, this paper is exclusively organized into four sections. The first section has dealt with the definition of corporate governance as well as the trends of corporate governance in Malaysia. The second section is attempted to elaborate the problems and issues of corporate governance in relation to the introduction of Malaysia Code on Corporate Governance (MCCG) as problem solving mechanism. The following section is analyzed the efficiency and the significant implementation of the sound corporate governance in achieving outstanding economic growth in Malaysia or otherwise. The summary section draws the conclusion of the paper. It is to mention here that this study has focused on the specific timeline of 2000 until 2007 before the forerunner of MCCG 2007 took place. The following research questions were addressed in this paper in order to understand how Malaysia government addresses the issue corporate governance and related challenges.

- a) What is nature and characteristics of corporate governance in Malaysia?

- b) What are the main issues and challenges of corporate governance in Malaysia?
- c) How the establishment of MCCG response in resolving the problems related to corporate governance?
- d) Is the MCCG succeeding in retaining the good governance conducts of corporate management or merely led to the failure?

## 2. Literature review

The intense issue of weak corporate governance has majorly exerted pressure on the economic development of one country. It became a frequent debate and discussion among the international community on this pertaining issue. Indeed, problems such as corruption and unaccountability which constituted to constant practices of corporate governance were not an outdated phenomenon within the global world. These issues were attention-grabbing and alarmed many professional groups and regulatory authorities such as think tank organization, politicians, economists, sociologists, as well as the board directors. According to Mobius (2002) and Roszaini and Hudaib (2006), a bulk of survey has illustrated the good corporate governance was played the critical role in the major institutions for making an investment decision. Undeniably, the implementation of sound corporate governance practices required a high and expensive cost. Yet, the outcome of this "investment" would guarantee fewer problems within the institution (Megat et.al, 2002). Mobius (2002) also eloquently stated the benefits of sound corporate governance practices were more revealing than the adverse elements in the modern world economy. As the result, the introduction of MCCG 2000 was the strategic goal to remove the ugly and vicious practices of corporate governance among the Malaysian business corporations. Notably, these types of problems would exist regardless of the level of development stage of one country (lower or higher). Therefore, this section was attempted to explain the definitions and concept of corporate governance particularly in Malaysia. The following review would examine the trends, patterns and types of corporate governance reforms which associated with the emergence of Malaysia Code on Corporate Governance.

### 2.1 Definition of Corporate Governance

Corporate governance; similar to poverty and inequality; there was no singular or unanimous definition that underpinned this underlying profile. It varied for different scholars to interpret coherently with the

economic environments. One way or another, there were similarities shared between the plural definitions. Beforehand, the section is aimed to define a corporation and its concept of corporate governance based on the past literature.

Generally, corporations have created a vast opportunity for job employment around the world. Corporation has aforementioned, simply defined as a group of investors that interested to maximize the profit-making as suggested by Nordberg (2011). He further explained that the corporations were academically defined as an organization associated with the other vicious practices through the accumulation of profit. It would be helpful to advance the wealth creation via the dividend received by shareholders or anyone that invested along within the corporations. In general, the corporations could be in the form of small or giant businesses. These institutions were commonly involved in governing matters for instance strategic planning, marketing, human resources and so forth that operated by economic actors. It also exerted the influence on the political sphere through law protection (p.4). Notably, these large corporations were also known as the multinational or transnational enterprises which possessed more income and more wealth. Apparently, the corporation faced the regular issue of ownership and distribution of power.

On contrary, corporate governance could be comprehended through the narrow and broader sense (Shafi, 2014 & Aida et.al, 2010). In a simple definition, corporate governance was relatively included the action of directing and controlling by the companies. According to Aida et. al (2010) through their article of "Corporate Governance Dilemma – Evidence from Malaysia", universally, corporate governance simply defined as the essential control and direction authorized by the board of directors or those in power (p. 2). Shafi (2014) and Nordberg (2011) have similarly defined the corporate governance in a narrow context was comprised of the relationship between the stakeholder and society as a whole. As cited in Singam (2003) and Hadi et. al (2004) in Report of Corporate Governance (1999 & 2002), corporate governance was articulated:

"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 realizing long term shareholder value, whilst taking into account the interests of her stakeholders."

In the broader sense, it could be expounded as the study of the wide range of complementing elements such as legal compliance (rules

and regulations), separation of ownership and control. (Youssef, 2012 & Shafi, 2014). Meanwhile, Khan (2011) has suggested that suitable definition for corporate governance was the combination of process, customs, policies, laws, and institutions that authorized the organizations as well as the corporations through the action, administration, and control (p. 1).

However, as contended by the Youssef (2012), there were two important elements in corporate governance. These were namely (1) the long-term relationship and (2) the transactional relationship. These two elements have signified the existence of stakeholder was vital besides shareholder in one corporation. On the other hand, Nordberg (2011) has asserted the different elements of the corporate governance that were (1) the relationship between investors and boards and (2) the relationship between board and manager. The statement given by Nordberg and Youssef were completely disparate. In addition, the Organization for Economic Cooperation and Development (2004) has underlined the principles of corporate governance as the following:

- a) Rights of shareholders
- b) Equitable treatment of shareholders
- c) Stakeholders
- d) Disclosure and transparency
- e) Board of the directors

These underlying principles were aimed to prevent such issue of power concentration on one hand and corruption to be happened. Note worthily, the power possession not necessarily leading to the destruction yet also contribute to the good. Thus, corporate governance code was intended to oversee the healthy performance by adherence to the concepts of accountability, integrity, and transparency (Shanmugam & Perumal, 2005, p. 1).

## 2.2 Trends of Corporate Governance in Malaysia

According to Shahimul, Normah and Schahler (2015), the establishment of Corporate Governance Code was aimed to advance the corporate performance including the operating and financing, upheld the integrity in the stock market, protect the corporate solvency as well as to generate wealth not only for the companies, shareholders, employees yet for the whole society. Noriza and Mazurina (2018) have supported the view of the previous scholars by described the objective of corporate governance acted as the mechanism in safeguarding the interests of the shareholder (p. 109). Azizah and Halimah (2007) also emphasized on the similar objectives of corporate governance by pointed out the prominent



balance on the three aspects namely (1) the realization of the objectives of company, (2) the alignment of corporate behavior and shareholders expectations, (3) applying the good conduct of accountability and stewardship and (4) protecting the interest of shareholder, stakeholders, employees and society as well (p. 25).

In the Malaysian context, corporate governance and political influence were inseparable. In this respect, it offered greater insight of variation background of the shareholding market with its location setting (Farizal, Zuraidah & Fahdah, 2017, p. 189). Due to that, the corporate government has set up a close and virtual relationship between business actors and political actors. Unsurprisingly, the corporations were exclusively-owned and mostly under the observation of the ruling parties (Azizah & Halimah, 2007, p. 24). As a result, they faced tremendous agency conflicts derived from the wealth accumulation practices. It was very crucial to observe the shareholders if they were became too powerful and practiced the unethical conducts (Farizal et.al, 2017). Even though the unethical conducts were not solely the impetus of the Asian Financial Crisis 1997 incident, most likely it has contributed the side-effect on the economic performance and money devaluation. For example, the high-profile misconducts in Malaysia were Malaysia Airlines System, Renong and Perwaja Steel (p. 189). Indeed, the Asian Financial Crisis 1997 has aggravated the striking reforms of the corporate governance system in most East Asian countries including Malaysia (Fatt, 2014).

There were numerous government organizations that proactively participated in the corporate governance regulatory framework in Malaysia. Cheah (2005) has listed out these agencies with its functions as well. Firstly, the Companies Commission of Malaysia (CCM) served as the regulator of companies in Malaysia that upheld the Companies Act 1965 (p. 86). Secondly, the Security Commission (SC) based on the Securities Commission Act 1993; responsible to monitor the capital market including the primary market and secondary market. Thirdly, the Kuala Lumpur Stock Exchange (KLSE) was a self-regulatory body accountable to market place surveillance and provided regulations for its member and PLCs (Cheah, 2005, p. 87). In addition, Azizah and Halimah (2007) have indicated the Ministry of Finance, SC, Registrar of Company as well as the KSLE have direct involvement in the law enforcement affairs (p. 23). According to Koh (2005), the Companies Act 1965 was founded and inspired by the Australian Uniform Companies Act 1961 and the UK Companies Act 1948 (p. 103). Furthermore, CCM also provided business information to the SMEs in Malaysia in order to meet good corporate

governance (Aamir, Johl & Muhammad, 2015, p. 74). Zahiruddin and Norlida (2013) and Zulridah and Takiah (2012) have mentioned the inclusion of Bursa Malaysia as the new brand for KLSE in 2004 as the watchdog of the business corporations to adopt the health of corporate governance as practices. Thus, the trends in corporate governance in Malaysia have offered greater importance to trace down the issues and challenges pertaining to these corporations.

### **2.3 Types of Corporate Governance Reforms**

As a catalyst, the Asian Financial Crisis 1997 has made major shifts in corporate governance system in Malaysia. According to Aamir et.al (2015), corporate governance was divided into two mechanisms; internal and external control. He further elaborated due to the weak external control; the internal control has replaced the spot. It has become prominent player for the corporate governance mechanism in the emerging economies (p. 74). After the incidents, the Malaysia government especially has rigorously transformed the system for the betterment of economic development particularly in the financial market.

Corporate governance regulatory framework in Malaysia has pre-text two types of reforms namely statutory and non-statutory controls (Cheah, 2005). He asserted that statutory control consisted of legal provisions, on the other hand, non-statutory control mainly in the prescription that encompassed written and unwritten rules and procedures (p. 87). Meanwhile, Shanmugam and Perumal (2005) have categorized these reforms into self-regulation and statutory. The self-regulation was related to the difficult elements of corporate governance to legislate. They also listed out the two combinations of legislative and regulatory rules such as transparency, disclosure, duties, and obligations, controlling shareholder as well as the rights and liabilities of directors. In Malaysia, as aforementioned, the bodies that managed statutory regulations were the Companies Act 1965, the Securities Commission Act 1993, the Securities Industry Act 1983 and KLSE Listing Requirements (Shanmugam & Perumal, 2005 & Koh, 2005).

### **3. Issues and Challenges of Corporate Governance in Malaysia**

In general, there was inconsistency on the underlying profile of Malaysian corporate governance. A bulk of studies has discussed different concepts of corporate governance circumscribed to the conditions on the particular place. Nevertheless, the profiles of corporate governance in

Malaysia was manifested by poor features and weak corporate governance, as well as financial distress, caused to the closing or bankruptcy of the companies (Zulridah et.al, 2012; Khan, 2011; Shahimul et.al, 2015 & Noriza & Mazurina, 2018). Notably, despite the different causal in these issues; it has led to the promulgation of Malaysia Code on Corporate Governance (MCCG). Therefore, this section is exclusively to expound the common factors of reforms on corporate governance with its relevancy to the emergence of MCCG 2000.

Unquestionably, the issue of bad corporate governance which has been stressed over time in this paper; became the key factors of the emergence of the MCCG. A bulk of scholarly studies has figured out the various scandals and malpractices problems within the corporate governance in Malaysia demand the reforms to change the underpinning situations (Aida et.al, 2010). There were included; (1) ownership concentration, (2) ownership composition, (3) "dominant personality" phenomenon, (4) political influence and corruption and (5) disclosure issues (Che Haat, Raaman & Mahenthiran, 2008; Aida et.al, 2010; Aamir et.al, 2015; Singam, 2003; Azizah & Halimah, 2007; Aida et.al, 2010 & Farizal et.al, 2017). According to Tark (2011), Tengku and Syazwani (2017), the creation of MCCG was purposively to resolve and control the issue of power imbalance and authority in decision making. This decision making process has involving the Executive Directors and non-Executive Directors as well as the issue of board domination. Meanwhile, Abdul Wahab (2008) has elucidated the MCCG was to guide the clarification of the responsibilities among the board of directors and provision to strengthen the control. He also added that the MCCG has promoted corporate transparency and disclosure to deliver accurate and relevant information, therefore, generate better investment decisions. In simple word, the foundation of MCCG by Malaysia Institute of Corporate Governance (MICG) was exclusively to reconstruct the weak business corporate related to the unethical code of conducts (Zaleha & Rashidah, 2010). It adhered to the basic tenets of sound corporate governance; fairness, transparency, accountability and responsibility (Shafi, 2004, p. 6).

The first key factor of the emergence of the MCCG was the concentration of ownership. The ownership concentration was becoming the primary structure in determining the good corporate governance system in Malaysia (Singam, 2003). However, it could contribute to the impediment if not implemented carefully. Thus, instead of the total eradication of the barrier, it suggested minimizing the problem at the initial stage. The degree of ownership concentration would determine the fair power

distribution between its officers and the shareholders. A central problem of ownership concentration was when the shareholder controlled the potential expropriation of minority shareholders rights. In the Malaysia context, most of the business corporations were heavily borne with the minority shareholder (Che Haat et.al, 2008, p. 2). Many emerging public companies were family owned. The perfect example to portray this phenomenon in Malaysia as exclaimed by Aamir et.al (2015) was Malaysia SMEs were modeled of family business or family concentrated companies in which fully controlled by the majority shareholder (p. 73). Statistically, almost 72 percent of family-owned business existed in Malaysia. Most of these companies were later inherited by their own children or related family. In this firm, the decision-making power was concentrated on the family, unsurprisingly if they hired their relatives and close friends as the co-worker even as the board of directors. They further contended that the position in the top management would be kept within family members. This phenomenon would illustrate the concentrated ownership that leading to the low protection for the minority shareholders right (Singam, 2003). Not only that, it would generate the lack of competencies, skills, and expertise in the business owners. Most of the SMEs were failed to practice good corporate governance and committing malpractices and fraudulent activities. Therefore, this family majority shareholders and the ownership concentration has caused the poor firm performance (Aamir et.al 2015).

Secondly, the ownership composition also contributed to the adverse effect more than its desired effect. The ownership composition was labeled as a imperative aspect of the good corporate governance system. The ownership composition was defined as the "who is the shareholder and who among the shareholders belong to the controlling group" as quoted by Singam (2003, p. 319). It was commonly illustrated in the substantial family corporate holdings. Hence, the ownership could be determined and achieved through the nominee companies or holding mechanism. This attribute has contributed to the defect in the Malaysia corporate governance system (p. 319). The nominee has referred to the not-revealing real identities of the holder. Statistics has shown that the largest shareholder group in Malaysian companies was occupied by the nominee companies according to the Asian Development Bank (ADB) Study. Approximately, 45.6 percent was nominated by the nominee companies, while the rest was occupied by non-financial companies (5.9%), the government (17.3%), foreign investors (1.5%), individuals (4.8%), and finance companies (5.9%). This has created imbalance ownership among

the Malaysian citizens. Therefore, the government tried to reallocate the corporate share and evenly distributed to all ethnics in Malaysia particularly the indigenous people, Malay, Chinese and Indian. Even though this problem was mainly resolved through the NEP programs, it somehow related to the ethics of fairness. Overall, this incident has indicated that the higher-level shareholdings composition became the major impediment to the sound corporate governance system in Malaysia (Singam, 2003).

Thirdly, the problem that impeded the good corporate governance was concentrated to the root cause of "dominant personality" phenomenon (Che Haat et.al, 2008, p. 4). The "dominant personality" phenomenon was referred to the dual role of the CEO and the Chairman of the board which occupied by one person only. According to Tengku and Syazwani (2017), the guideline of healthy corporate governance required the balance of power whereby no individual would conceive the position of CEO and Chairman at one time. Che Haat et.al (2008) has contended that there were two views pertaining to this matter. The first view was based on the agency theory where it addressed that the separation of the power between these two roles was essential to provide the check and balance upon the management performance. It should be independent from one another for the betterment of corporate management. On the contrary, the second view was derived from the proponent of stewardship theory. It has deliberated the role separation not necessarily succeed in retaining good corporate governance, yet the combination of roles also guaranteed its success and delivered the sufficient checks and balance (p. 4). Similar to Donaldson and Davis (1991) has declared that the joint leadership structure has promoted clear and transparent communication between the board of directors and management. In addition to that, it might achieve its primary objectives without much interference. However, it was worthwhile to comprehend the market environment in Malaysia. In the Malaysian context, the concept of duality seemed not fitted to measure the management's performance. Thus, the separation roles between CEO and Chairman could create a greater quality of management yet it was not being practiced and realized in Malaysia as a total.

Fourthly, most of the outstanding corporations in Malaysia were involved with the government interference in the administration system. The relation between business corporations and political connection has secured the interest of business groups. For instance, Perwaja has been founded by HICOM Sdn Bhd. Not only that, MAS and Renong have established and owned by relatively to the state affairs. These examples

were perfectly indicated the close relationship between business and politics. As eloquently acknowledged by Gomez (1990), he agreed on the inseparable elements of business and politics which it reciprocally dependable to each other. Initially, the government involvement and political business influence began with the foundation of NEP. It helped to redistribute the inequalities of wealth among the Malaysian citizen specifically the effected Bumiputera. In return, it has bred the golden opportunity to build a close relationship through the frequent political involvement in business. As a result, the businessmen developed a personal connection with the politicians (Farizal et.al, 2017). Besides that, the government programs not necessarily jeopardized the moral values, yet most of the time it contributed to the rise of nepotism, bribes, and corruption. For instance, Perwaja has exemplified the failure of government in gaining profits; it also caught red-handedly in endless scandals and corruption. Similar case happened to Renong. Notably, Azizah and Halimah (2007) have envisaged that the political influence in the business affairs would create the malpractices such as fraud and corruption and provided much freedom to the business actors to act above the corporate law. Therefore, the state involvement was eminently discouraged the development of sound of the corporate governance system in Malaysia (Singam, 2003, p. 327).

Finally, the issue that could incumbered the growth of good corporate governance was the disclosure. According to Bursa Malaysia, there was a significantly low level of transparency in disclosing relevant information by the Malaysian companies (Che Haat et.al, 2008, p. 2). Aida et.al (2010) have advocated the same ideas that Malaysian companies have produced less effective in delivering useful information to users in annual reports. This was because of irrelevancy in disclosure the information pertaining to the business matter. The authors further added that many users have demanded more given information yet, the annual reports failed to fulfill the demand in the disclosure the business information. Besides that, the content of provided information did not satisfy the demand of investors. It has been suggested, the Malaysian business framework has prominently lack of disclosure on certain fundamental information (Aida et.al, 2010, p.3). Even worse, a study has indicated most of the Malaysian companies were short in practicing the global disclosure. Thus, the issue of corporate governance practices and standard report not yet resolved. The disclosure issue has much related to the transparency concept of corporate governance.

In sum, the issues and challenges faced by the Malaysia companies have jeopardized the values of the good corporate governance system. In addition to that, the Asian Financial Crisis 1997 has heightened the poor economic environment and Ringgit depreciation as the investors have lost confidence to invest with the Malaysia companies. Therefore, the Malaysian government has taken the initiative to resolve the problems by formulating MCCG that underlined the principles and guidelines towards good corporate governance.

### **3.1 Introduction of Malaysia Code on Corporate Governance (MCCG)**

Obviously, Malaysian corporate governance system has gradually the weak during the implementation of MCCG. The MCCG has partially provided the clarity of economic narratives. The comprehensive programs were critically influenced the successful achievements of MCCG. The corporate governance reforms have been practiced throughout the world was based on the three broad approaches. There were namely (1) prescriptive, (2) non-prescriptive and (3) hybrid approach. The prescriptive approach has denoted the specified desirable standard practices, on the other hand, non-prescriptive connoted no specified standards and actual practices of the disclosure unlike prescriptive approach. Finally, the hybrid approach was simply defined as the well-combination of prescriptive and non-prescriptive with mutual accommodation (Good Governance in Malaysia, 2000). Every country has seriously considered the mechanism to improve governance structures. Most of the countries have established their own Code on Corporate Governance with the suitability. It was to ensure the continuous flow of money and attract more investors to confidently invest in their country. Notably, almost all the guidelines originated from the developed countries yet it would not necessarily applicable to the developing countries due to their own history, cultural and business goals (Roszaini & Hudaib, 2006, p. 1035). This phenomenon has experienced by Malaysia where the MCCG was formulated based on the recommendation of the Cadbury Report and the Hampel Report. It might disputable since the business environment in Malaysia was different from the United Kingdom. There were three significant differences namely (1) the high ownership concentration, (2) close controls of the family owner with the substantial shareholder that contributed to the low protection of minority shareholder right and (3) pyramiding issue in Malaysia (p. 1036). Therefore, the careful diagnosis was carried out to set

the good corporate governance reform that fit with the Malaysian economic environment.

The core laws and principles of corporate governance were laid down and set out by various institutions such as Organization for Economic Corporation and Development (OECD), Asian Development Bank, World Bank, United Kingdom, and Australia corporate governance committees and other common and uncommon law of countries (Singam, 2003, p. 315). The MCCG or simply the Code has adopted the hybrid approach that joint the prescriptive and non-prescriptive approach to tackle down the issue of unhealthy corporate governance (Hadi et.al, 2004). Malaysia has become the forefront in these couple of years in the corporate governance reforms. The first MCCG was released exclusively for the regional usage; in 2000 by the Finance Committee in Corporate Governance (Zahiruddin & Norlida, 2013); later on, Singapore was attracted with the appealing outcomes, thus adopted this inspired-MCCG in their own soil. The MCCG was attached with the convenient and flexible approach to modify and raise the standards of corporate governance compared to the statute and regulations (Megat. et.al, 2002 & Hadi et.al, 0000). The Code was explicitly delineated as follow:

"The Code essentially aims to set out principles and best practices on structures and processes that companies may use in their operation towards achieving the optimal governance framework. These structures and processes exist at micro level which includes issues such as the composition of the board, procedures for recruiting new directors, remuneration of directors, the use board committees, their mandates, and their activities." (Megat et.al, 2002, p. 227)

In simple word, the MCCG 2000 was stressed on the highlighted areas; boards of directors, director's remuneration, shareholder, accountability as well as audit. These focus aspects have been constantly laid down to increase business performance. As suggested by Tark et.al (2011), the MCCG 2000 was recommended to solve the imbalance power of Executive Directors and non-Directors in decision making.

The Code was stretched towards two primaries that inter-related objectives. Firstly, it was designed to foster the disclosure through the provision of timely and relevant information to investors. It was regarding the investment decisions that might be made as well as the evaluation of companies' performance. Secondly, it was intended to oversee the board of directors by clarifying their responsibilities and provide prescriptions to enhance the control of their exercise (Megat et.al, 2002). Besides that, the Code has addressed out the three forms of recommenda-



tions according to the Report on Malaysia Code on Corporate Governance (2000); (1) the broad principles of good corporate governance, (2) the best practices in corporate governance and (3) exhortations to other participants.

The broad principles of sound corporate governance were briefly explained in this section. According to the Report on Malaysia Code on Corporate Governance (2000), the first principle of corporate governance was the board of directors. The structure of directors consisted of the board, board balance, information supply, board appointment, and re-election. This coherent combination would enhance the integrity and good structure in the very top management. The remuneration of directors was the second basic principles of corporate governance. It embraced at least three points namely the level and makeup of remuneration, procedure, and disclosure. Firstly, the level and makeup remuneration were implicitly explained the sufficient level of remuneration needed to seamlessly successful running the companies. Secondly, the procedure was expounded that the companies should adopt the transparent and formal procedure in order to develop the policy on executive remuneration. Thirdly, the disclosure was demarcated in the form of the annual company report. It should contain with the details of the director's remuneration. Meanwhile, the third principle has underpinned the shareholders on the basis of dialogue between companies and investors as well as the AGM. Basically, this principle was to deliver mutual understanding through the clear-cut dialogue to avoid the misunderstanding with its shareholders. Finally, the element of accountability and audit were to be instilled in the financial report, internal control and the relationship with the auditors.

The best practices in corporate governance have codified a set of principles or practices which were planned to help the companies to design the best approach to their corporate governance. Indeed, the voluntary compliance and best practice were required the Listing Requirements from KLSE in completing their annual report. All the listed companies need to adhere to the obligations that need to be included in their annual report. There were two elements that need to be scribed in the annual report namely (1) a narrative statement on the application of relevant principles to describe particular circumstances and (2) a statement of compliance in the light of the best practices in the corporate governance (Megat., et.al, 2002, p. 237). Overall, this MCCG could be promoted through the organizations and educational trainings provided to the business actors. It was to encourage the public awareness of sound corporate

governance practices (Tark, 2011). All in all, the MCCG 2000 was directed to eliminate the possibility of free riding and enhance accountability. Unfortunately, the limitation of MCCG 2000 was identified as the weak of corporate governance in lined with the capital market development. The revision of MCCG 2000 was being concluded in MCCG 2007. Not only that, it merely laid down the underlying principles without thorough guidelines.

### 3.2 The Impact of MCCG

In the midst of all these developments; under the light of the above reasons and techniques to resolve the problems, did the MCCG's initiatives have bred the beneficial implications to the national corporate governance? Or it merely contributed to the setbacks that limiting the flows of corporate governance? A bulk of scholarly studies has shown the positive results of the importance of effective MCCG 2000.

The globalization era and the endless increasing complexity in the business have constructed a greater reliance toward the private sector as the mechanism of economic development in the developed as well as developing countries. The significant outcome of the corporations has eliminated the poverty, encouraged the development and growth economic and raised the standards of living. These remarkable achievements were derived from the importance of good quality of corporate governance. According to Shafi (2004), he has underlined effective corporate governance would give a decent outcomes as such; (1) ability to attract the low-cost capital, (2) efficiency with which a corporation employs assets, (3) ability to meet the expectations of society and (4) overall performance (p. 4). Firstly, the sound corporate governance has guaranteed to lower the capital cost through the improvement of confidence of domestic and foreign investors that the asset would be used on the agreed purpose. This effective corporate governance would protect the interests of the investor's corporate governance by following the prescribed rules and regulations:

- a) Independent management monitoring
- b) Control corruption, ownership and performance transparency
- c) Shareholder participation in certain fundamental decision making

Secondly, the effective corporate governance certified the resources to be used in the optimal rate in intra firm as well as inter-firm. It also helped to protect the scarce resources in safeguarding the needs of the society. Thirdly, the ability to meet the expectation of society could

be summarized on the long-term success of corporation must comply with the laws, regulations as well as social corporate responsibility that aimed for the betterment of society. The final outcome would impact on the overall performance. It has been said that effective corporate governance would provide the managers with careful observation and help them to be accountable in their management. This could lead to changes in the above mentioned through this mechanism (Shafi, 2004, p. 5).

Meanwhile, the benefits of MCCG 2000 has eloquently stated by Youssef (2012) consisted of three different areas. There were namely benefits to companies, shareholders and the national economy. The benefits to the companies encompassed owners and managers and it enhanced the transparency quality could be done through compliance with corporate governance. It improved access to the financial market and capital, able to survive in the endlessly aggression and competitive environment by establishing partnership and mergers, guarantee better internal control and so forth. Meanwhile, the shareholder would be benefitted through the provision of proper incentive, delivered the greater security upon their investment as well as the sufficient disclosure of information on the decision of fundamental issues. The MCCG 2000 has benefitted the national economy that raised the standards the corporate values. No doubt that good corporate governance was essential for economic development in Malaysia (Youssef, 2012).

In conclusion, there were apparent differences between bad practices of corporate governance which have been portrayed before the Asian Financial Crisis 1997 had severely detrimental to the economic performance as well as the fall of ringgit values. The malpractices of the corporate governance system have associated with the unethical activities management to quickly become rich. This unethical conduct would not preserve too long because it naturally led to the downfall of the companies. The crime of collar-white that incorporated with the political influence would make the practice in the long run, yet in return, they need to pay the price for the "silence". The obvious example was the issue of IMDB where this major corporation practiced corruption and unaccountability led to the failure of the organization. Therefore, it stressed the basic principles of sound corporate governance; fairness, accountability, transparency as well as responsibility to be adapted to produce the sound corporate system.

#### 4. Conclusion

The framework of Malaysian corporate governance has undergone extensive changes over twenty years. For that matter, the MCCG has been repetitively revised in order to achieve the best performance of corporate governance. There were at least four revision periods (2000, 2007, 2012, 2017) were made for the betterment of business management. The good management practices were embraced the four tenets of values such as fairness, disclosure, accountability as well as transparency. These principles not only served as the objectives yet acted as a benchmark to measure the quality of the sound the corporate governance. As aforementioned, Malaysia has experienced a severe quality of corporate governance practices even before the Asian Financial Crisis 1997. Among the examined problems that aroused in the system of corporate governance were an issue of ownership concentration, ownership concentration, dominant personality phenomenon, political influence, corruption and disclosure issue. These obstacles have impeded the growth of good corporate governance that needed an immediate cure to recover the poor economic situation.

Consequently, the reforms have highlighted the MCCG as the solution to these distinctive problems. The objective of the Code was to set out the underlying principles and best practices on the structures and process in the business operation. It could be said that the MCCG was the rules and regulations made by the Malaysian government to achieve the continuous flow of funds and encouraged the investor confidence to invest in the country's business. Since the MCCG was the first report and reform to improve the structure in corporate governance, it has full of loopholes and slight defects to be correct. Regardless of its defects, there was still accomplishment made by the first MCCG. Without MCCG, Malaysian corporate governance system might gravely worsen and full of the malpractices which made the investors lose confidence to invest in the business since it might breed the vicious outcome.

In conclusion, in order to create good and sound corporate governance, it was tantamount to address such underpinning problems with the best solution to enhance the better system in corporate governance.

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