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Right time to call for corporate governance now

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NECESSITY is definitely the mother of invention. The urgency of a situation nearly always leads to, at the very least, a creative thought process about the matter, and at most, a solution to a problem.

This rings true for Malaysia at the moment as the current difficult economic situation for many of the country's companies has led to calls for the invention of new paradigms and rules to deal with it.

According to Prime Minister Datuk Seri Dr Mahathir Mohamad, the ease with which the currency devaluation and share depreciation can distress even strong companies underscores the need for new rules and regulations to improve corporate resilience.

Stressing that many existing laws and rules, and banking practices, tend to aggravate rather than mitigate the situation faced by corporations, the Prime Minister called for the formulation of new sets of rules, regulations and laws to address the situation.

In this regard, weaknesses in corporate governance have to be looked into, he said at the launch of Registry of Companies' centennial celebrations and the International Conference on Corporate Governance on Tuesday.

One particular weakness in the Malaysian corporate sector must be the frightening situation where the chairmen of corporates and their board of directors are left in the dark of the operational level of the companies they are supposed to head.

This has led to instances where the board of directors was unaware of impending huge losses and corporate failures.

"How can they deliberate on the weaknesses in the organisation, if they are not aware of its operations," asked one banking analyst.

For corporate governance to be practised, management needs to be transparent and ensure there is proper and timely flow of information, he added.

The presence of the same directors sitting on many different boards further compounds the problems as it necessarily means lack of time to be able to follow each of their developments.

"Sometimes the directors are only aware of an impending crisis when it is too late," he said.

This is, however, a two-way street as directors too need to exercise greater responsibility and prudent management on their part.

Corporate governance further means that the chairman and the directors take total responsibility for the actions of the company as opposed to just being required to attend the obligatory couple of meetings a year.

But for corporate leaders that wilfully lead their companies to the corporate killing fields, the authorities need to ensure the full force of the law is upon them.

"There must be investigations, and if they are found guilty, they should be prosecuted.

"If the law is strictly enforced, people will wake up," the analyst said.

Such an approach has been successfully applied to the country's banking sector which rose stronger out of the ashes of the recession in the 1980s.

Under the Banking and Financial Institutions Act 1989, bank managers will be dished out hefty fines if false information is submitted and for the non-disclosure of pertinent information.

This has led to the introduction of a more reliable banking information system, said one analyst.

The clarion call for heightened corporate governance has not only originated from our shores.

In fact, the Asia Pacific Economic Cooperation has agreed to launch an initiative to examine ways to improve corporate governance as a means to avoid the repetition of the Asian financial crisis.

The organisation was in agreement that the undoing of several economies was not only the result of poor surveillance by governments but also due to lack of corporate governance, which includes the accumulation of short-term debt and unhedged foreign currency denominated debts.

Even the Organisation for Economic Cooperation and Development (OECD) recently commented on the need for more effective regulation in an environment of greater risk especially in a globalised economy.

"The quality of corporate governance is of particular importance at a time when interactions between corporations and their capital suppliers are undergoing fundamental changes, with significant implications for other corporate stake holders, such as employees.

"Due to global deregulation and technological change, capital suppliers are encountering new opportunities to improve their returns ... companies are exposed to a wider and more complete range of capital raising vehicles; and employees are experiencing greater exposure to the risks and rewards of competition," the OECD said.

The call is an opportune one, though one wonders why the issue of corporate governance was not on their minds when all the economies, now in the doldrums, were rolling along merrily.

No doubt global investors will return to battered Asian markets first to those markets and to those corporates that display standards of corporate governance and transparency closer to international norms such as the Cadbury Report.

As suggested by a speaker at a conference, the training and quality of the securities regulatory process should be upgraded to enhance the capacity for timely accurate disclosure of material information, and to raise standards of corporate governance through self-regulatory and regulatory initiatives.

Though some people may criticise these moves as akin to shutting the stable doors after the horses have bolted, it is obviously time that such measures are adopted.

And what better time than when it is absolutely necessary to do so.

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