DEVELOPMENT OF A CORPORATE INTEGRITY ASSESSEMENT INSTRUMENT USING CORPORATE GOVERNANCE INDICATORS IN MALAYSIA

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DECLARATION

“I, Aida Maria Ismail, declare that the PhD thesis entitled Development of a Corporate Integrity Assessment Instrument using Corporate Governance Indicators in Malaysia is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work”

Signature____ Date 20 March 2013

ABSTRACT

Integrity means to act with truth, being honourable, loyal, faithful and trustworthy ad to exhibit "moral excellence and honesty". The purpose of this research was to provide models of best practice in corporate integrity for public listed companies in Malaysia. This study arose from perceptions that what was reported in corporate governance statements was not always consistent with what was actually happening in the companies. The research is the first of its kind to design an integrity assessment instrument and to assess Corporate Integrity Systems in Malaysian Companies. Specifically, it identified the scope of Corporate Integrity Systems implemented in publicly listed companies, identified appropriate indicators, and verified the reliability of the instrument.

The initiative for enhancing ethics and integrity in the private sector in Malaysia was the drafting of the Malaysian Code on Corporate Governance in 2000, followed by the acceptance of the National Integrity Plan in 2004 by the Malaysian Prime Minister and later the revised Malaysian Code on corporate Governance made by the Security Commission Malaysia in 2007. The constructs listed in these became the criteria for the development of an integrity assessment instrument. Three stages of data collection were conducted in order to achieve the research objective.

The first stage of data collection provided contextual information about current practices related to corporate governance reporting among Malaysian government link companies and an understanding of the corporate integrity concept through a series of semi-structured interviews. Information gathered sought to validate the terminology, concepts and issues that help in establishing an appropriate and sensitive survey questionnaire. The second stage of data collection gathered quantitative data about respondent perceptions and opinions of their company corporate governance practices through a survey using a structured questionnaire. Respondents were members of company boards of directors and top management in government link companies. The last stage of data collection was based on

information disclosed in annual reports. Quantitative data about corporate governance reporting practices among Malaysian government link companies were collected.

Data were collated and analysed. The interview exercise identified the following important observations: the ineffective and unreliable reporting of corporate governance; the importance of validating corporate governance reporting to ensure the accuracy of reported information and the understanding of the corporate integrity concept. The second stage of the investigation identified corporate governance indicators which can be used to model ad measure corporate integrity and its reliability. It also identified which factors were important in modelling and assessing corporate integrity. Factors identified were: none directors factors, three directors remuneration factors, four shareholders factor; four accountability and audit factors, one business ethics and responsibility factor, two intellectual capital factors and four disclosure factors.

The final stage of the investigation measured corporate integrity value and how it related to performance. Integrity value was measured by benchmarking the corporate governance reporting practices against board and top management perceptions and opinion and assessing any discrepancy. The integrity value confirms the accuracy and reliability of the information presented in the annual reports or in any other publicly available information. Then the investigation determined the relationship between corporate integrity and performance. The factor scores were regressed against company performance. The performance indicators were measured by the proxies: Return on Capital Employed (ROC), Return on Assets (ROA), Return on Operating Cash Flow (CFA) and Tobin's Q.
The findings suggest that a high integrity value does not necessarily result in good corporate performance. A company may have a high integrity value but it does not mean that they perform well. There is no unified theory linking integrity and performance. This study made an original contribution to agency theory by proposing a new auditing model which integrated behavioural implications of the human beings (boards of directors and top management) involved in the production and management

process, and introduced the integrity concept (consistency of corporate governance reporting and perceptions) into corporate governance research.

PUBLICATIONS ASSOCIATED WITH THIS THESIS

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ABBREVIATIONS

AGM Annual General Meeting

AUD Australian Dollar

AMMB Arab Malaysia Merchant Bank

ASEAN Association of Southeast Asian Nations

ASX Australian Securities Exchange

BAT British American Tobacco (M) Berhad

BMB Bursa Malaysia Berhad

BNM Central Bank of Malaysia

BOD Board of Directors

CCM Company Commission of Malaysia

CEO Chief Executive Officer

CFA Operating Cash Flow

CG Corporate Governance

CGS Corporate Governance Score

CGI Corporate Governance Index (Korea)

CIMB CIMB Group Bank

CLRC Corporate Law Reform Committee

CRISIL Indian Rating Agency

DVFA Corporate Governance Scorecard (Germany)

DRB Disclosure based regulations

EPF Employees Provident Fund

EGM Extraordinary General Meeting

FCGI Forum for Corporate Governance in Indonesia

FDI Foreign Direct Investment

FCCG Finance Committee of Corporate Governance

FIC Foreign Investment Committee

GDP Gross Domestic Product

GLCs Government-Linked Companies

GLICs Government-Linked Investment Companies

HREC Human Research Ethics Committee

ICA Industrial Co-ordination Act

ICD Institute of Corporate Directors

ICRA Investment Information and Credit Rating Agency of India Limited

IFAC International Federation of Accountants Committee

ISS Institutional Shareholder Services

IOI IOI Groups of companies

KSE Korean Stock Exchange

KFC KFC Holdings

KLSEB Kuala Lumpur Stock Exchange Berhad

KLSE Kuala Lumpur Stock Exchange

KLCI Kuala Lumpur Composite Index

KMO Kaiser Meyer Olkin

MAICSA Malaysian Institute of Chartered Secretaries and Administrators

MAS Malaysian Airlines System Berhad

MBS Merit based system

MISC MISC Shipping Berhad

MICG Malaysian Institute of Corporate Governance

MCCG Malaysian Code on Corporate Governance

MASB Malaysian Accounting Standards Board

MITI Ministry of Trade and Industry

MII Malaysian Institute of Integrity

MSWG Minority Shareholders Watchdog Group

NUBS Nottingham University Business School

NIP National Integrity Plan

NEP New Economic Policy

NEAC National Economic Action Council

OECD Organisation for Economic Co-operation and Development

PCG Putrajaya Committee for GLC high Performance

PPB PPB Group Berhad

PLCs Public Listed Companies

RLR Revamped Listing Requirement

RM Ringgit Malaysia

ROA Return on Assets

ROC Return on Capital Employed

SC Securities Commission

SIA Securities Industrial Act

SEMS Stock Exchange of Malaysia and Singapore

SES Stock Exchange of Singapore

SCCG Singapore Code of Corporate Governance

SET Stock Exchange of Thailand

SEC Securities and Exchange Commission Thailand

SPSS Statistical Package for Social Science

TRIS Thai Rating and Information Services Co Ltd

Tobin's Q Company performance

UEM United Engineering of Malaysia Berhad

UK United Kingdom

USA United States of America

YTL YTL Corporation

CHAPTER 1: INTRODUCTION

1.1 Introduction

Integrity is a matter of honesty and trust. Many people hoped that the good corporate governance guides and practices introduced by securities exchanges, professions and industry associations during the last twenty years would promote the growth of corporate integrity. Corporate governance refers to the structures, controls and relationships managed by boards of directors. Yet, corporate crimes such as corporate frauds have tarnished the credibility and integrity of the private sector among investors and the public (Razak 2005). The fact that Enron obtained a 100 percent governance compliance score speaks volumes about this concern. More recently, the cases of Northern Rock and Bear Stearns have led to more pronounced and vocal disapprovals of the governance practices in place.

Reviewing the reports of corporate governance practices presented in annual reports has become one of the commonly used techniques to analyse corporate governance practices (Horwath 2002). However, there have been doubts expressed about the accuracy of these reports, that is, whether they are, in fact, reporting what actually takes place (Rasmussen 2011). It appears that the present mode of reporting has created an era of corporate conformance when ticking boxes, running through drills and complying with codes has lead to a false sense of security that the right judgements are being made and the right actions are being taken (Le Pla 2005).

The conclusion is that the current governance systems fail to ensure accurate and reliable corporate governance reporting. A company may say one thing in their corporate reports, filings and stakeholder communications, when in reality the company is doing something else (Rasmussen 2011). The purpose of the present study was to develop an auditing model that verifies corporate governance reporting and ensures the accuracy and reliability of the reported information. The verification of the information confirms the actual practice of corporate governance within a company and also measures its integrity value. The integrity value refers to a measure of the discrepancy between actual and reported corporate governance practices.

The study makes an original contribution to knowledge first, by introducing the integrity concept into corporate governance research, and second, by developing an auditing model to measure and verify the integrity of corporate governance reports.

1.2 Context of the Study

In the Malaysian private sector, no mechanism addressed the problems emerging from a lack of ethics and integrity in the capital markets until Malaysia experienced the financial crisis in 1997 (Government of Malaysia 2004). One of the causes of crisis was believed to poor corporate governance of the likes of Renong, Perwaja Steel and Malaysia Airlines System (MAS), to name but a few. The Malaysian Securities Commission (SC) also revealed that it had uncovered a variety of breaches and mismanagement' by directors and senior officers of a number of companies (Oh 2003). The offences included insider trading and market manipulation, as well as corporate governance transgressions such as purchasing assets at inflated prices, selling assets at deflated values, submission of false or misleading information, schemes to defraud, and misuse of proceeds from capital-raising exercises.

Poor corporate governance, weak investor relations, a low level of transparency in disclosing information by companies listed on the Bursa Malaysia (BMB), formerly known as Kuala Lumpur Stock Exchange (KLSE), and the ineffectiveness of regulatory agencies in enforcing legislation by punishing offenders and protecting minority shareholders, are also partly blamed as reasons contributing to the collapse of several Malaysian companies (Mohamad 2002). These problems have drawn attention to the need to maintain corporate governance standards, increase transparency, and improve investor relations and the lack of actions from the market regulatory agencies such as the Securities Commission (SC) and Bursa Malaysia to press for more effective enforcement of legislation. A survey of the investment community and financial intermediaries in Malaysia, conducted by *The Edge* (a leading weekly business report published in Malaysia) and Bulletin International, a UK-based public relations and image management consultant, revealed clear evidence of such problems. The respondents indicated that increasing transparency, improving corporate governance and developing better investor relations helped to increase capital inflow into the country (*The Edge*, 8 June 1998).

In addressing the above issues, the Malaysian Institute of Corporate Governance (MICG) was established in March 1998 by the High Level Finance Committee on Corporate Governance and mandated to raise the awareness and practice of good corporate governance in Malaysia. Then followed the drafting and release of the Malaysian Code on Corporate Governance (MCCG) in the year 2000 as an initiative to enhance good corporate governance, ethics and integrity in the private sector (Government of Malaysia 2004). In 2001, the introduction of paragraph 15.26 and 12.57 of the Bursa Malaysia Revamped Listing Requirements (RLR) (2001) also provided a platform for better Corporate Governance in Malaysia as the code was now backed by the listing requirements. Since then, the regulators have promoted the use of best practices in corporate governance to improve disclosure and promote transparency in reporting.

The initial release of the Malaysian Code on Corporate Governance (Ministry of Finance 2000), the introduction of paragraphs 15.26 and 12.57 of the then Kuala Lumpur Stock Exchange (KLSE) Revamped Listing Requirements (RLR) (Ministry of Finance 2001) and the revised Malaysian Code on Corporate Governance (Finance Committee on Corporate Governance 2007) provided a framework and structures for a good governance reporting architecture for Malaysian companies.

The acceptance of the National Integrity Plan (NIP) in 23 April 2004 at Putrajaya by the Malaysian government further indicated their commitment to achieving economic progress that is consistent with good personal values and ethical corporate conduct (Government of Malaysia 2004).

Corporate governance and business ethics are the two key concepts that run through the National Integrity Plan (NIP) which is the main concerns for private sector with regard to integrity. The government is aware that the private sector is the prime mover of economic growth in Malaysia. Various scandals and malpractices involving both foreign and local companies have time and again demonstrated the need to uphold good governance (Razak 2005). Adopting good corporate governance practices in every sphere of the corporate sector is important in order to promote integrity and sustain economic prosperity (Razak 2005).

As such, good corporate governance practice is of critical importance to investors, insurers, regulators, creditors, customers, employees and other stakeholders. However, in view to the doubts expressed about the veracity of the annual reports, several questions need to be answered: How accurate and reliable is the information provided in the annual reports? Does it reflect the actual corporate governance practices in a company? Can corporate governance reporting be used to measure a company's integrity value? After all, the aim of corporate governance is to ensure company credibility and integrity. To what extent integrity can become a prerequisite to good business and market performance?

1.3 Research Problem

Agency theory suggests that auditing of reporting is necessary to verify corporate governance reporting. This supports the notion that corporate governance practices may be more, or less, than what was reported and disclosed in annual reports. Kraakman (2004) argued that inaccurate disclosures are difficult to detect and that where disclosures are accurate, they may still have hidden implications that are difficult to uncover and, as Fasterling (2006) noted, the popular assumption that disclosure (alone) solves this problem is erroneous. He also further suggested that academic research should address the importance of honesty and accurate reporting as a fundamental value for the effectiveness of disclosure.

Increasing governance and regulatory expectations to address the issues can only led to too much focus on process, or "box-ticking" (Le Pla 2005; Rao 2007). As Che Haat et al's (2005) study found, users demand more from the contents of annual reports and felt that annual reports fail to convey useful information. The conclusion drawn from these studies is that the practice of ticking off boxes for compliance purposes only, led to a false sense of security.

Following on from this, it is only natural that the question of whether the present corporate governance reporting practice is indeed of value and has achieved what it is supposed to achieve keeps resurfacing. Judging from the Enron case and many more, the current corporate governance reporting practices have failed to confirm the accuracy and reliability of the information. Recognising the importance of accurate and reliable corporate governance reporting, it is vital to have a study focusing on the development of an assessment instrument that can validate corporate governance reporting. The accuracy and reliability of corporate governance reporting is crucial to ensure company credibility and integrity. It provides assurance to society regarding a company's credibility and integrity value.

The current study addressed this issue. It used corporate governance indicators to assess corporate integrity. In addition, it also investigated the relationship between integrity value and company's performance.

1.4 Objectives of the Study

The primary objective of this study is to extend the evidence in the literature on the verification on corporate governance reporting which was not being addressed by the auditing model supported by Agency theory. The study also integrated the behavioural implications of the human beings involved in the production and management process and introduces the integrity concept in corporate governance research.

In addition, the specific objectives of the study were:

i. To evaluate the current corporate governance practices among Malaysian government link companies (GLCs) and understanding of the concept of corporate integrity;

ii. To develop a conceptual framework to guide corporate integrity modelling and assessments using corporate governance indicators;

iii. To determine the importance of corporate governance indicators in modelling and assessing corporate integrity;

iv. To determine how corporate integrity can be measured;

v. To examine the relationship between corporate integrity and corporate performance

1.5 Significance of the Study

There is a growing literature on analysing and measuring corporate governance practices. Reviewing corporate annual reports has become one of the commonly used techniques to analyse corporate governance practices (Horwath 2002). Recognising the importance of assessing the actual practices of corporate governance, it is vital to have a study focusing on the development of an assessment instrument which can validate the information reported in the annual report to ensure its accuracy and reliability. Such an instrument would assess the actual corporate governance practices among Malaysian public listed companies and portray the integrity value of the company.

This study aimed to pioneer the modelling and assessment of corporate integrity and its relationship with corporate performance. It will make to a significant contribution to a number of key stakeholders:

i. The Regulators – the Malaysian Institute of Integrity (MII), the Malaysian Institute of Corporate Governance (MICG), the Putrajaya Committee for GLC High Performance (PCG), Bursa Malaysia and the Securities Commission (SC) could use the results as a mechanism to monitor and promote good corporate governance practices which will then enhance integrity value among Malaysian public listed companies.

ii. Public Listed Companies (PLCs) could use the instrument as a guideline for their corporate integrity assessment.

iii. IT Solution companies could use the instrument to develop an enabler or corporate integrity software for Public Listed Companies (PLCs).

iv. Finally, this study is expected to make a contribution to the country by developing the first national integrity measurement instrument for Public Listed Companies (PLCs) to complement the National Integrity Plan (NIP). Following its introduction in 2004, there is no measurement instrument to measure the results (Ravendran 2006).

The end results of this study enable investors, regulators and other stakeholders to assess integrity value among Malaysian public listed companies. With this assessment instrument, it is hoped that the investors are able to have a more systematic approach to their investment-decision making. Other stakeholders can also evaluate company integrity value more objectively.

1.6 Contributions of the Study

This study will address the fact that relatively little has been done by Malaysian researchers in the assessment of corporate integrity. The scope of this study has been limited to the assessment of corporate integrity using corporate governance indicators in the Malaysian government link companies (GLCs).

It is in this respect that the study will contribute to the governance and integrity literature in terms of the following areas:

i. Specifically, this study offers an auditing model to verify corporate governance reporting and measure integrity value. Annual reports are seen as a communication medium between owners and management. Shareholders / owners rely on annual report in order to know what is happening in the company in which they invest. Agency theory provides an auditing model which centres on the verification of financial reports by the auditor to confirm the reliability of financial information, but there is no verification of other information that the board of directors and management (agent) of the firm provides to the shareholders / owners in the annual report. The study will fill this gap.

ii. As the boards of directors are responsible for delivering information to shareholders and are entrusted by the owners to control the company, their perceptions and opinions regarding the actual corporate governance practices in the company are compared with the information reported in the annual report. This is to verify the accuracy and reliability of information in the annual reports and hence reflect the actual corporate governance practices in a company. This is where the behaviour implications of the human beings (boards of directors and top management) involved in the production and management process (Jensen 1998) were included in the study investigation.

iii. Kimber and Lucas (2001) state that the concept of integrity is related to consistency of values and actions or words and deeds; they further define integrity as being honourable, honest, loyal, faithful and trustworthy. Benchmarking corporate governance reporting against corporate governance perceptions and opinions in order to see the consistency of the information introduces the integrity concept. The integrity value of the company is measured from this validation process.

iv. The study also address the question of whether the Malaysian Code on Corporate Governance is indeed of value and has achieved what it is supposed to achieve, that is enabling shareholders and the public to assess and determine the standards of corporate governance of listed companies. Empirical evidence from this study highlights the codes strength and weakness.

v. In addition to that, the study also contributes to the development of the first national integrity assessment instrument. The movement to enhance integrity in the Malaysian private sector was guided by the National Integrity Plan (NIP) but nonetheless, thus far there is no measurement instrument introduced since the introduction of the NIP in 2004 (Ravendran 2006). The proposed model provides tools to measure company integrity value thus complementing the NIP. The success of the NIP is crucial as its overall objective was to realize the aspirations of vision 2020.

The findings of this study are important to regulators, investors, academics and others who contend that good corporate governance practice is important for increasing investor confidence and market liquidity (Donaldson 2003). Hence, good corporate governance practice restores public faith in the integrity of business (Fasterling 2006). With the regulations focusing on corporate governance and integrity introduced by the Malaysian authorities, there is a widely held view that a company with high integrity value would be associated with better performance. The present study addressed this assumption.

1.7 Definition of Key Term

As there are certain terms for which there are various definitions, this section defines the key terms as they apply in this study. These comprise:

1.7.1 Corporate governance indicators

Corporate governance indicators in this study refer to measures of the elements of the Malaysian Code on Corporate Governance (MCCG); Basic principles and best practices, paragraph 15.26 of the *Listing Requirements of Bursa Malaysia* and other best practices worldwide. It includes Directors *(Basic Principle & Best Practice),* Directors' Remuneration *(Basic Principle),* Shareholders *(Basic Principle & Best Practice),* Accountability and Audit *(Basic Principle & Best Practice),* Business Ethics and Responsibility *(World Best Practice),* Intellectual Capital *(World Best Practice),* Disclosure (*Compliance- Listing Requirements of Bursa Malaysia*).

1.7.2 Corporate governance reporting practices

Corporate governance reporting practices refer to the compliance with corporate governance indicators reported in the annual report. In this study, the frequency of the compliance score were calculated and converted into percentages to indicate a company's reporting compliance and acceptance of the gauged factors. The score shows company corporate governance reporting compliance which relates to actions or deeds.

1.7.3 Corporate governance perceptions

Corporate governance perceptions refer to the survey responses of the boards of directors and top management about their company corporate governance practices. In this study, the perceptions and opinions from the company boards of directors and top management regarding the corporate governance practices in the government link companies were measured using a 5-point Likert Scale. The frequency of the strongly agree ("5-point" score) and agree ("4-point" score) were calculated and converted into percentage indicating the board and top management agreement with gauge factors. The score shows that the company complies and practices the factors based on the board and top management perceptions and opinions which relates to values or words.

1.7.4 Corporate integrity

Kimber and Lucas (2001) define integrity as having consistency in values and actions or words and deeds. Corporate integrity in the context of this study means good corporate governance practices. Since the technique of measuring corporate governance practice is through reviewing annual reports, validation of reported information against the board and top management perceptions measures integrity value. The consistency between corporate governance reporting practices and corporate governance perceptions introduces the integrity concept.

1.7.5 Integrity value

The relationship between corporate governance practices and perceptions reflects integrity value. Integrity value exists when there is a consistency between corporate governance practices and corporate governance perceptions. Benchmarking reported information in the Annual Report which compared the perceptions of company boards of directors and top management reflects the integrity value in company. In this study, the frequencies of the reporting scores were benchmarked against the perception scores. The benchmark result assessed and measured the company integrity value. Variances calculated indicated the discrepancy between corporate governance reporting and corporate governance perception scores. High variance computation meant a low integrity value and vice versa.

1.7.6 Corporate performance

The performance indicators were proxy measures based on Return on Capital Employed (ROC), Return on Asset (ROA), Return on Operating Cash Flow (CFA) and Tobin's Q. Return on capital employed (ROC) was calculated by dividing net profit before interest and tax with shareholders fund. For Return on asset (ROA), the formula used was net profit before interest and tax divided with total assets. Return on operating cash flow (CFA) was calculated by dividing operating cash flow and total assets. The last measurement used for performance was Tobin's Q which compared the market value of assets with book value of assets. All of the performance information was drawn from the annual reports.

1.7.7 Boards of Directors

In this study, boards of directors refer to any individuals who work jointly with fellow directors on a board (Wallance and Zinkin 2005). These include chairmen, CEOs and independent and executive directors who have the same legal responsibilities despite performing different functions (Rachagan, Pascoe et al. 2002).

1.7.8 Top Management

In this study, top management refer to any individuals who were holding executive posts in a company which translates the policy (formulated by the boards of directors) into goals, objectives, and strategies, and projects a shared-vision of the future. Management makes decisions that affect everyone in the organization, and is held responsible for the success or failure of the company. For this study managers referred to those persons who were responsible for the company corporate governance practices.

1.7.9 Malaysian Public Listed Companies (PLCs)

Malaysian PLCs refer to the public listed companies registered in Malaysia and listed on the first board of Bursa Malaysia Berhad (Bursa Malaysia. 2011b).

1.7.10 Malaysian Government Link Companies (GLCs)

Government-Linked Companies (GLCs) are defined as companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake.

A controlling stake refers to the Government's ability (not just the percentage of ownership) to appoint Board members and senior management, and make major decisions (e.g. awarding contracts, strategy, restructuring and financing, acquisitions and divestments etc.) for Government-Linked Companies (GLCs), either directly or through Government Link Companies (GLCs) and includes companies where Government-Linked Companies (GLCs) themselves have a controlling stake, i.e. in subsidiaries and affiliates of Government-Linked Companies (GLCs).

1.8 Outlines of the Thesis

The thesis is organised (Figure 1.1) into ten chapters as follows:

Chapter 1 (Introduction) covers the importance of validating the reporting of corporate governance among Malaysian listed companies, the introduction to the context of the study, the research problem, objectives of the study, significance of the study, contributions of the research, definition of key terms and the organisation of the thesis.

Chapter 2 (Literature Review on Corporate Governance) includes issues in corporate governance practice and the ongoing debate about the appropriate approach to measuring corporate governance practice. This chapter also describes the evidence from the previous studies on the indicators used in assessing and measuring corporate governance practice. The theory applied in this study, agency theory, is also discussed in this chapter.

Chapter 3 (Literature Review in Malaysia) provides a brief history of the Malaysian national and economic setting, history of the Malaysian public listed companies, ownership concentration in Malaysia, development of corporate governance in Malaysia, the Malaysian corporate governance framework and integrity initiatives in Malaysia.

Chapter 4 (Theoretical Framework and Research Questions) provides justification for the framework of this study to enable the development of five research questions and the hypothesis to be tested. These questions and hypothesis are formulated to investigate issues relating to the objectives of the study.

Chapter 5 (Research Design and Methodology) justifies the research design used in this study. In addition, the research strategies and data collection process of both qualitative and quantitative research were discussed. The rigour of the study was also discussed.

Chapter 6 (The Preliminary Study – Mapping Corporate Governance Practices in Malaysian Government Link Companies (GLCs) reports findings for the first stage of the investigation, which was semi-structured interviews with the industry practitioners (Group One – Practitioner), and the corporate governance expert panels (Group Two - Corporate Governance Expert). The chapter focused on mapping corporate governance practices in Malaysian Government Link Companies (GLCs) and the understanding of corporate integrity.

This preliminary study help in establishing a more appropriate and sensitive data collection instrument for the survey questionnaire.

Chapter 7 (Corporate Integrity Indicators and Its Importance) presents the results from the survey questionnaire that forms the basis of stage two investigations. The focus for this stage was to identify the corporate governance indicators that can be used to model and measure corporate integrity. The results also determined the importance of each indicator identified in modelling corporate integrity.

Chapter 8 (Corporate Integrity Measurement and Corporate Performance) present the findings for the final stage of the investigations which focuses on assessing and measuring corporate integrity. This chapter was divided into three sections. The first section presents the results of the content analysis of the data collected from the review of annual reports. The second section of the chapter presents the validation of corporate governance reporting. The third section presents the results of the analyses of the relationship between company integrity and company performance.

Chapter 9 (Discussion) presents a discussion of the study results in relation to the hypothesis tested and research question which it is being address.

Chapter 10 (Conclusion) concludes the study and identifies the contributions of the study. Limitations and suggestions for future research were also discussed.

1.9 Summary

This chapter has laid the foundation for the study by introducing integrity concept into corporate governance research, the context of the study and motivation for the study. This chapter has also summarised the significance of the study and the operational definitions used. The following chapter provides a review of the literature relevant to understanding the context of the study.

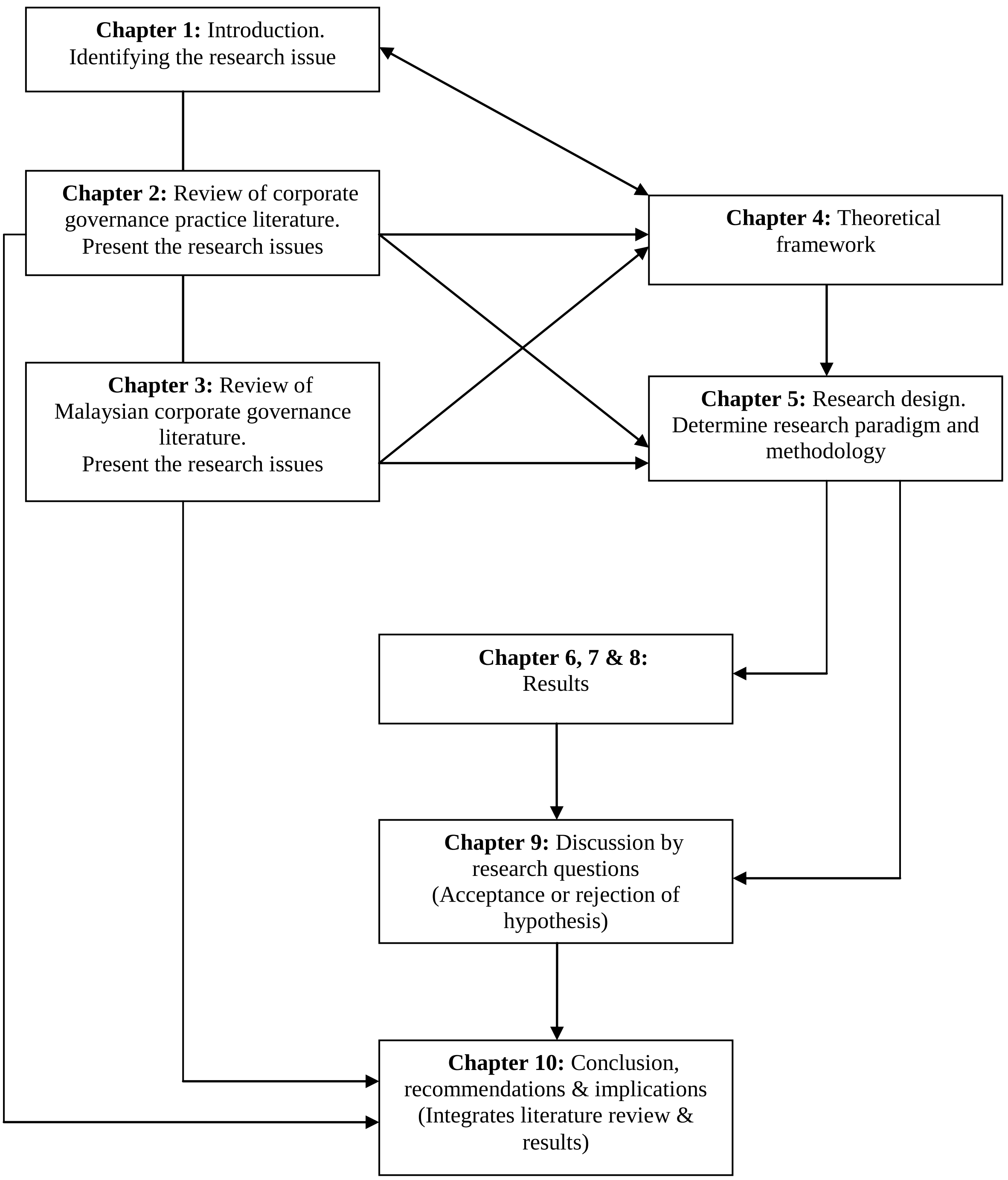

Figure 1.1: Organisation of the thesis

CHAPTER 2: LITERATURE REVIEW- CORPORATE GOVERNANCE

2.1 Chapter Description

The purpose of this chapter is to explain the definition of corporate governance, discuss the relationship between agency theory, stakeholder theory and corporate governance and the corporate governance model and framework. Reviews of corporate governance measurement, as well as a review of previous studies on the role and responsibility of boards of directors were presented. This chapter also highlight integrity as part of corporate governance.

2.2 Definition of Corporate Governance

Corporate governance is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled. The last decade however has seen a surge of interest in the area of corporate governance triggered in part by the East Asian financial crisis of 1997. Then after 1997 financial crisis, the interest in corporate governance practices continues, particularly due to the high-profile collapses of a number of large corporations, most of which involved accounting fraud. In the United States (US), these include Enron Corporation and MCI Inc. (formerly WorldCom). Though the interest in this concept only heightened recently, it would be wrong to say that there was no corporate governance before then. Understandably, the conceptual focus of corporate governance invokes a structure of incentives and accountability for the exercise of authority and control within a company, and it is a fact that organized business has been around for a long time.

The word '*governance*' which is originally derived from a Latin word '*gubernare*' means 'to rule or to steer' (Tricker 1984). In the Malaysian context, Koh (2001) defined corporate governance as;

> *"...the process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing long-term value for shareholders and financial viability of the business."*

Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. As such, it emphasizes on issues pertaining to transparency, integrity, morality, effectiveness and accountability in all aspects of its business conduct (Khas 2002). In addition, it also covers the division of power and accountability, regardless of the party/parties to whom the companies are accountable to (Haniffa and Cooke 2002). The definition proposed by the Malaysian High Level Finance Committee on Corporate Governance (Finance Committee on Corporate Governance 1999) is very much like the one by Koh (2001);

> *"Corporate governance is 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 shareholders value, whilst taking into account the interests of other stakeholders."*

Both of the above definitions incorporate the word ‘process and structure … to direct and manage the business…’ in their definitions with the purpose of emphasising on the division of power and accountability among shareholders, the board of directors and management, consequently having an impact on other stakeholders such as employees, customers, suppliers and the community at large. Basically, the above definition contains two key elements namely, the objectives of corporate governance and structure and the process involved in corporate governance. As regards to their objectives, good corporate governance is aimed at enhancing business integrity and prosperity, whereby accountability is the key to the legitimacy of the entire corporate system. Companies have power and the exercise of that must be within an accepted governance framework. The board and management who are charged with directing and managing the business of their company and as decision-makers are accountable to the owners of the company.

2.3 Agency Theory, Stakeholder Theory and Corporate Governance

Agency theory in a formal sense originated in the early 1970s, where it has been the subject of extensive research since its introduction in the modern form of Jensen and Meckling (1976) in their study of the structure of the firm but the concepts behind it have a long and varied history. The theory dates farther than the last twenty years of social science research and has its fundamental roots in theories of private property rights. It was developed in the work of Coase in the 1930s. Furthermore, agency relationships have also been explicitly outlined in both English common law and the law of torts as far back as the fourteenth century (Bowie and Freeman 1992).

Agency theory is closely related to the concept of corporate governance. The theory explains how to best organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt 1989). It focuses on the agency relationship in which one actor or group (the agent) has certain obligations which are to be fulfilled for another actor or group (the principal) by virtue of their economic relationship. The underlying mechanism with which this relationship is articulated is in terms of a contract between the principal and the agent; thus, the firm is seen as a nexus of contracts between principals and agents. The most common form of the agency relationship is described in the principal-agent view of the firm in which managers of firms are seen as agents of the shareholders (principals) who invest in firms primarily to increase their wealth (Quinn and Jones 1995).

Theorists who argue for the primacy of shareholder interests (which is the essence of agency theory) typically cite the famous dictum from ***Dodge Bros. v Ford*** that "the corporation exists for the benefit of the shareholders" (Boatright 1994) as evidence of a restraint on the discretion of management. It is the agency theorists who advocate that the fiduciary responsibility of corporate managers is to the shareholders. Shareholders receive returns only after other corporate claimants have been satisfied. This means that shareholders have a claim on the corporation's residual cash flows. As the shareholders' claim is consistent with the purpose of the corporation in creating new wealth, and that the shareholders are allegedly at greater risks than other claimants, agency theorists reason that corporate directors are singularly accountable to shareholders (Brickley, Smith et al. 2001).

Eisenhardt (1989) further notes that the main focus of the theory in the agency relationship is the selection of appropriate governance mechanisms between principal and agents that will ensure an efficient alignment of principal and agent interests. Its goal is to ensure that agents serve the interests of the principals thereby minimizing agency costs. Thus, these relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This has implications for, among other things, corporate governance and business ethics.

Both theoretical and empirical research has developed in four problematic areas; moral hazard, earning retention, risk aversion, and time-horizon. Jensen and Meckling (1976) first proposed a moral-hazard explanation of agency conflict. Jensen (1993), state that these problems are likely to be more paramount in larger companies. Eisenhardt (1989) argue that under conditions of incomplete information and uncertainty, which characterize most business settings, this agency conflict may arise. He further suggests that adverse selection may also arise. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid and moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort or lack of managerial effort (Eisenhardt 1989). When agency occurs, it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (e.g., offering management performance bonuses to encourage managers to act in the shareholders' interests).

With regard to the agency theory in the corporate world, Jensen and Meckling (1976) demonstrate how investors in publicly-traded corporations incur agency costs in monitoring managerial performance. In general, agency costs also arise whenever there is an “information asymmetry” between the corporation and outsiders because insiders (the management) know more about a company and its future prospects than the outsiders (shareholders). The desires and goals of management and shareholders may not be in accord and it is difficult for the shareholders to verify the activities of corporate management. A monitoring mechanism in the form of regular reports is necessary to provide an account of the manager’s performance. Shareholders are then able to take certain action on the basis of the reports. If shareholders anticipate misuse of funds, they are able to protect themselves by raising the cost of capital provided. As a corollary, management recognizes the desirability of an audit (Gill, Cosserat et al. 1999). Verification is the essence of auditing. A model of auditing therefore centres on the verification of financial reports that the management of the firm provides to the shareholders / owners. A main reason why there exists a demand for the confirmation of these reports is that, in the absence of verification, the management then has incentives to misrepresent the financial condition of the firm. These incentives arise because the financial reports are used to evaluate management’s performance, which is costly to observe directly.

Agency theory provides a natural basis for the auditing model in a decision setting involving moral hazard. As mentioned earlier, the theory models the contractual relationship between a principal and agent, which consists of the *owner-principal* and the *manager-agent*. Therefore, within this setting, it is assumed that the owner hires an auditor to produce information used in contracting with the manager. Thus, the auditor is also an agent and is modelled as such. On the other hand, the board is viewed as a market-induced institution, the ultimate internal monitor of the set of contracts called a firm, whose most important role is to scrutinize the highest decision makers within the firm (Fama 1980). In other words, in general, it is the agency theory that leads to the need for corporate governance to protect the interests of shareholders.

Besides agency theory where management should create as much wealth as possible for the shareholders, the stakeholder theory on the contrary, poses a broader range of objectives for a business (profit maximisation being one of them), as it also measures the quality of corporate life, manager satisfaction, respect for society and the environment and a variety of financial indicators (Freeman 1984). The agency theory or the shareholder model of corporate governance that underlies the principles discussed earlier rely on the assumption that shareholders are entitled (morally, not merely legally) to direct the corporation because their capital investments provide ownership rights that are an extension of their natural right to own private property. However, given the impracticality of direct shareholder review and the constraints on the efficacy of financial markets, the effectiveness of board operations and how committees (which refer to corporate governance practices) carry out responsibilities take on greater importance. The stakeholder theory views corporate governance as more than simply the relationship between the firm and its capital providers. Based on this view, corporate governance also implicates how the various constituencies that define the entity serve, and are served by the corporation (Mintz undated).

Freeman’s (1984) seminal book on stakeholder theory posits that successful managers must systematically attend to the interests of various stakeholder groups. Later, this “enlightened self-interest” position has been expanded upon by other authors such as Donaldson and Preston (1995) who believe that the interests of stakeholders have intrinsic worth irrespective of whether these advance the interests of shareholders. Under this perspective, the success of a corporation is not merely an end in itself but should also be seen as providing a vehicle for advancing the interests of stakeholders other than shareholders (Mintz undated).

Etzioni (1998) also supports the stakeholder view. He agrees with the notion that shareholders have certain rights and entitlements because of their investment, but he insists that “the same basic claims should be extended to all those who invest in the corporation. Such parties include employees (especially those who worked for a corporation for many years and are loyal); the community (to the extent where special investments are made that specifically benefit that corporation); creditors (especially large and long terms ones) and under some conditions, clients. This is based on the notion that businesses are affected by their environment: customers, suppliers, government agencies, families of employees, special interest groups; in turn, the business decisions and actions are likely to affect one or more of these stakeholder groups (Etzioni 1998). Therefore, the managers of a firm should manage the demands to groups other than the shareholders when making decisions. Stakeholder theory suggests that companies can benefit significantly from cooperating with a wide range of stakeholder groups, understanding their needs and making decisions accordingly.

The importance of the agency and stakeholder theories would lie in their force to influence legislation and guide the establishment of non-legislative norms, such as corporate governance codes (Fasterling 2006). Most of the codes of corporate governance recognise the importance of adequate disclosure and timely reporting as key elements of corporate governance. In other words, the codes recommended that the board of directors should deliver sufficient and reliable information to shareholders or also known as 'disclosure adequacy'. This is also emphasized by the OECD principles of corporate governance;

> *"The corporate governance framework should ensure that timely and accurate information is disclosed on all material matters regarding the financial situation, performance, ownership and governance of the company."(OECD 2004)*

As the auditing model which agency theory provides only centres on the verification of financial reports by the auditor to confirm of the reliability of the financial information, thus other information that the board of directors and management (agent) of the firm provides to the shareholders / owners in the annual report is absence of verification. These incentives arise because the annual reports are seen as a communication medium between owners and management. Shareholders / owners rely on annual report in order to know what is happening in the company in which they invest. As the board of directors is responsible for delivering sufficient information to shareholders and are entrusted by the owners to control the company, it would be meaningful to introduce their behaviour within the theory of agency in verifying the accuracy and reliability of information in the annual reports hence reflect the actual corporate governance practices in firm.

2.4 Corporate Governance Model and Framework

There are two major well-known corporate governance models among corporate governance scholars, namely the Anglo-Saxon and the Franco-German models. However, there is a literature who suggest on considering the behavioural implications of human beings involved in the firm production and management process. Although it is necessary but overlooked by neoclassical theory, Jensen and Meckling (1976) did address the importance of behavioural implications of the economic actors in a firm setting. For this study, the extended framework includes the boards of directors and top management perceptions and opinions about their company corporate governance practice. This allows greater insights about the actual practices of corporate governance. A Malaysian reporting framework developed by Omar et al (2004) has been extended to produced a framework that incorporate agent behaviour that will verify the accuracy of information reported in annual report. The extended framework which benchmarks a board of directors and top management perceptions and opinions about their company's corporate governance practices against its corporate governance reporting practices, allow the assessment of firm integrity value.

The prevailing corporate governance paradigm is virtually an Anglo-American concept, that arouse with the publication of the classic work on "The Modern Corporation and Private Property" by Berle and Means in 1932. Aiming to overcome the "alienation of owners from their capital", the concept is mainly centred on the relationship between the management and the shareholders of the firm (Shleifer and Vishny 1997). It reinforces a notion of maximisation of share value as the singular and optimal goal of corporate decision making. According to this theoretical approach, any rights of creditors or employees ought to be strictly limited to contractual and statutory rights. These traditional views of corporate governance have been buttressed by statutory and judicial support for the notion that the objective of the corporation is shareholder wealth maximisation, with judicial deference to business judgements that accomplish that end. Shareholder wealth maximisation or the “shareholder primacy norm” had its origins in cases involving disputes between minority and majority shareholders, prior to the enactment of oppression remedies, where the courts held that directors and officers were to act in the best interests of all shareholders. These cases did not address situations in which the interests of other stakeholders were affected.

According to the Anglo-American governance approach, the stock market is argued to become important in providing longer term finance. Providing information about company value in terms of share price, serves as a means of indicating where potential shareholders can invest, as well as monitoring and controlling firms externally. If share prices reflect current company value, then falling share prices indicate that the company is underperforming (Jenkinson and Mayer 1992; Mayer. 1994). Internally, there is no separate supervisory board in Anglo-American firms. The single board of directors holds both the function of monitoring the management and planning for strategic policies, however due to the distance between the board and the company the board may not receive correct information about the running of the company from the manager. If the manager pursues self interest, then there may be an agency problem which is harder to get rid of than in the Franco-German system because there is a lack of a long term vision to converge interests of ownership and control.

The France and German corporate ownership structure is characterised by bankers or creditors with large equity stakes, and cross share ownership in companies within the same industrial sector (Jenkinson. 1992; Mayer. 1994; Allen. 2000). The banks have intimate relationships with companies, and are represented on the supervisory board. There is an increased flow of knowledge between the bank and the company about company performance, so the bank is more aware of potential risks and forecasting of future profits. This minimises the risk faced by the bank when issuing long term finance to the firm, and banks will be more likely to agree to long term, late payoff investment projects (Allen 2000). The equity stakes together with debt give the bank a senior claim and increased influence of financial and managerial decisions of the firm. Regarding the corporate control structure, the supervisory board is also likely to hold employee representatives from the company and from trade unions, as well as representatives from other stakeholders, such as cross owned companies and suppliers (Jenkinson and Mayer 1992). The board may be two-tiered in large companies which mean that all public listed companies have dual boards (supervisory and managerial) in France and Germany. The supervisory board oversees a separate managerial board, through an ex-CEO of the company (Jenkinson and Mayer 1992). The supposed impact of these peculiarities to the German corporate governance systems are that various interests are better represented and those shareholders are centralised and influential.

Obviously, there seems to be a contrast as to how the Americans and the Europeans look at the issue of corporate governance. The former uses the Anglo-Saxon model where corporate governance has the aim of maximising profits, that is, maximising shareholder value and that nothing else is more important. This is based on the agency relationship between the shareholders and the manager with the protection of shareholders' interests as the main objective.

On the other hand, the opposing European version is typified by the Franco-German model which aims to protect a wider circle of stakeholders, incorporating each stakeholder's claims, rights and obligations. The difference between the two approaches leads to different corporate governance patterns between the two models. To summarise the difference, the table below shows the comparison between the corporate governance system of liberal market economy (Anglo-American) and the organised market economy as in Germany and France. The comparison as illustrated by Jackson (2003) below shows the differences between the two systems in terms of financial system, corporate control, capital interests, mechanisms of corporate control, advantage gained by smaller investors, constraints on large investors, as well as the impact on labour.

Table 2.1: Comparison of Corporate Governance Patterns by Jackson (2003)

Regime Characteristics	**Anglo-American**	**Franco-German**
Financial system	Capital markets	Banks
Corporate control	Market-based	Insider-based
Capital interests	Financial, liquidity	Strategic/organisational
Mechanism of corporate control	External takeovers	Internal coalitions
Advantage for smaller investors	Transparency	Stability
Constraints on large investors	Rule-based	Incentives for responsible behaviour
Labour	Voluntarism, collective bargaining, low legal intervention	Industrial citizenship, legal or bargained rights to information, consultation and codetermination

Source: Jackson (2003)

The Franco-German model argues that stakeholders may include customers, suppliers, providers of complementary services and products, distributors and employees. This model advocates that corporations should be managed for the benefit of all who have some stake in the firm. Of late, the stakeholder view of the corporation has gained ascendancy. One of the earliest and respected proponents is Ackoff (1994) who has argued vigorously for the conceptualisation of the corporation as an enterprise operating as a social system so that;

> *"… it focuses on those who are affected directly, and further that a stakeholder theory of firm should be derived from balancing the conflicting claims of the various 'stakeholders' in the firm: the managers, workers, stockholders, suppliers, vendors. The firm has a responsibility to all these and must configure its objectives so as to give each a measure of satisfaction. Profit which is a return on investment to the stakeholders is one of such satisfactions, but does not receive special predominance in the objective structure."*

Early work on the 'stakeholder' concept defined a company's stakeholders as all those who could affect or be affected by the company. However, this definition is considered too general. Various attempts to narrow down the category of groups with a potential claim to 'stakeholder' status have been based on a number of different theoretical positions. Donaldson and Preston (1995) argue for the recognition of stakeholder claims from a theory of property rights based on pluralistic notions of distributive justice. From this perspective, legitimate stakeholders are those who have a 'moral interest' or 'stake' in the existence and activities of a corporation. Blair (1995), starting from the viewpoint of transaction cost economics, describes stakeholders as all those who have made 'relationship-specific investments' in the firm. In other words, those who have economic interests tied up with the firm's long-term economic success. Adapting this economic definition, Slinger and Deakin (1999) define stakeholders as ‘those whose relations to the enterprise cannot be completely contracted for, but upon whose cooperation and creativity it depends for its survival and prosperity’. This definition stresses the potential of stakeholder relations to foster long-term cooperation and innovation.

The stakeholder theory is a managerial conception of organisational strategy and ethics (Donaldson and Preston 1995) which can be the basis of a corporate governance model. According to Freeman and Phillips (2001), the central idea is that an organisation’s success depends on how well it manages the relationships with key groups such as creditors, employees, suppliers, communities, and others that can affect the realisation of its purpose. The manager’s job is to maintain the support of all these groups, balancing their interests, while making the organisation a place where stakeholder interest can be maximised over time.

Figure 2.1 depicts a stakeholders’ view of a firm, as suggested by Koh (2001). Referring to Figure 2.1, “M” denotes the circulation of money between the parties; “GSC” refers to Good, Services and Control provided by the government to the corporation, “GS” refers to goods and services provided by the suppliers to the corporation, as well as the goods and services produced by the corporation to be sold to the consumers. “L” denotes labour services provided by the employees to the firm. The diagram shows how a corporation interacts with the parties such as debtors, consumers, government, investors and lenders, suppliers and employees based on the stakeholders’ view. The circulation of money, goods and services, controls by the government and labour supplied by employees are the mediators which link the corporation with the parties. Each has its own interests and governance will come into the picture to make sure that there is a win-win situation between all the parties involved.

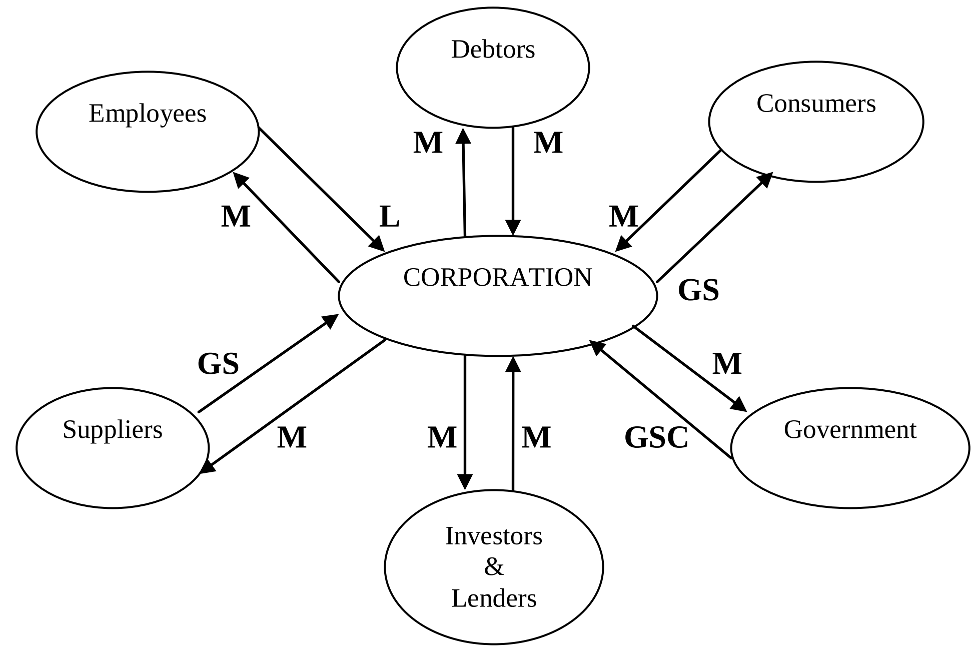

Figure 2.1: A stakeholder's view of a firm (Koh 2001)

2.5 Review of Corporate Governance Measurement

In the context of corporate governance, "best practices" as suggested by various codes refers to the role separation between CEO and Chairman; having a balanced board both in terms of skills and competencies, as well as in terms of inside and outside representation; having defined criteria for director independence; establishing audit and other committees such as the remuneration, nomination and strategy committees; having robust and transparent processes for director appointment; carrying out effective performance evaluations, linking rewards to performance; and communicating adequately and openly with investors (Heracleous 2001). Hence, these elements of corporate governance are basically aimed towards improving board independence, transparency and accountability to the company's shareholders and other stakeholders, and its effectiveness in fulfilling both its conformance and performance functions (Garratt 1997).

Studies conducted by Felton, Hudnut and van Heeckeren (1996) and Hawkins (1997), provided the definition of "good governance" based on conventional perceptions of best practice. It was defined as having a majority of outsiders on the board; having independent directors with no management ties but owns a significant amount of the stock of the company; are remunerated to a large extent by stock and are formally evaluated and are responsive to investor requests.

In emerging economies, the quality of corporate governance can vary enormously. Recognising the need for a benchmark for corporate governance standards, Standard & Poor's introduced its new service called Corporate Governance Scores (CGS). Their analysis begins with an evaluation of governance issues at the country level in order to determine the extent to which external forces at the macro level support governance practices at the company level. Then, this is followed by the second part of the analysis which evaluates corporate governance practices at individual companies. Using a synthesis of the OECD's and other international codes and guidelines of corporate governance practices as cornerstones of the scoring methodology, Standard & Poor's scores a company's overall governance practices and four other components: ownership structure; financial stakeholder relations; financial transparency and information disclosure; and board structure and process. The extent to which a company adopts and conforms to international codes and guidelines of good corporate governance practices is reflected by the award of a

Corporate Governance Scores (CGS) on a scale from CGS-1 (lowest) to CGS-10 (highest). The four components described earlier, all contribute to the CGS and receive individual scores from 1 to 10. There are altogether 100 governance attributes examined during Standard & Poor's analysis (Patel and Dallas 2002). From their review of US companies' annual reports, the study shows that US companies exercise considerable discretion regarding what was disclosed in annual reports compared with other forms of regulatory or voluntary disclosures. Their transparency and disclosure rankings based on annual reports were negatively correlated to systematic risks, positively correlated to price-to-book values and were not correlated to size. These correlations suggest that the market pays a premium for companies that provide more information in their annual reports than was required by regulation. The results also suggest that smaller companies generally provide less disclosure. On the other hand, the evidence suggests that the larger corporations may provide more robust disclosure in their annual reports as a best practice, not because it was required by regulation.

According to the Corporate Governance Ratings and Research by Deminor Rating (2003), the important corporate governance themes that receive strong attention during the rating process are director's independence, splitting the roles of Chairman and CEO and the audit and non-audit services provided by the external auditors. The ratings criteria used to benchmark the governance of a company were included in an analysis grid containing over 300 governance indicators. The more than 300 criteria that make up the Standard were classified into four main categories: right and duties of shareholders; range of take-over defences; disclosure and governance; and board structure. Deminor Rating's research was done on ten selected European countries comprise of the UK, France, Germany, Netherlands, Italy, Netherlands, Switzerland, Spain, Sweden and Belgium. The results indicate that there was an improvement in corporate governance in Germany and Switzerland due to the introduction of the *Kodex* and the Swiss Code of Best Practice/Transparency Directive respectively. Belgium and the Netherlands also made a leap forward in corporate governance practices. The corporate governance themes that received strong attention in most sampled countries were director's independence, splitting the roles of Chairman and CEO and the audit and non-audit services provided by the external auditors.

Standard & Poors and Corporate Governance and Financial Reporting Centre of National University of Singapore (2004) also conducted a study on Malaysian firms. The study uses the corporate governance disclosure scorecard developed by Standard & Poor's to assess the corporate governance disclosure practices of the companies. The scorecard consists of 136 items with a maximum score of 140 and the items reflect principles and best practices embodied in international corporate governance codes, suitably modified for the Malaysian environment. The findings show that considerable variation was seen in the disclosures among the 50 companies (ranked based on top 50 market capitalisation as on 30 September 2003). Most of the scores clustered between 45 and 75, reflecting much room for the Malaysian companies to improve disclosure of their corporate governance practices. Overall, only five companies were considered to have better disclosures of their corporate governance practices relative to the other companies in the sample. There is little variation in scores among the five companies but there were significant differences between them and the other 45.

Given that corporate governance has emerged as a headline issue in recent years, various organisations from both commercial enterprises and non-commercial organisations have come up with various models and scoring systems designed to enable investors and other market participants to rank governance practices. The main objective of such attempts was typically to enable participants to more systematically factor the corporate governance variable into the investment decision-making process. In this section, a number of studies from different countries have been reviewed in order to develop an overview of corporate governance framework.

Saldana (2000) highlighted the guidelines of preparing a corporate governance scorecard in the Philippines as proposed by Estanislao at the Institute of Corporate Directors (ICD). The guidelines are patterned after the German CG Scorecard of the *Deutsche Vereinigung fir Finanzanalyse und Asset Management* (DVFA). Following the DVFA Scorecard format, there were five elements in the scorecard, namely: Shareholders rights; Commitment to Corporate Governance Principles; Board Governance; Transparency; and Auditing. As in the DVFA German CG Scorecard, the weights for each area are as follows: Shareholders Rights (20 per cent); Commitment to Corporate Governance (15 per cent); Board Governance (30 per cent); Transparency (20 per cent); Auditing (15 per cent).

In Indonesia, an initiative to measure the level of corporate governance practices by Indonesian companies was taken by the Forum for Corporate Governance in Indonesia (FCGI) (2003). FCGI employed a self-assessment method by distributing a set of questionnaires which could be completed by the companies themselves. Furthermore the companies gave an evaluation of scores objectively towards their replies. There were five elements assessed and the weight for each element has been put as follows: Shareholder rights (20 per cent; Corporate Governance Policy (15 per cent); Corporate Governance Practice (30 per cent); Disclosure (20 per cent); and, Audit (15 per cent). In these five sections, for each "yes" answer, a score of 5 is given while for each answer "no" a score of 0 is given. From the results of these scorings, a total score for a company was calculated based on the weighted average method.

Thompson and Hung (2002) conducted a corporate governance study in Singapore. On hundred companies were selected, representing 20 per cent of the population, randomly selected from the SGX's list of constituents, both from the Main Board and SESDAQ. To gauge the level of corporate governance of Singaporean companies, a Corporate Governance Scorecard (CGS) was developed based on the guidance notes of the Singapore Code of Corporate Governance (SCCG). This scorecard serves both as a measure of compliance with the Code and more broadly as a gauge of the corporate governance in each sample company. The method of construction of the CGS was similar to that of a corporate disclosure index. The study adopts an unweighted disclosure index where disclosure of individual practice has been treated as a dichotomous variable. A score of "1" was given for each best practice complied with and "0" if the best practice was not complied with or if the company does not disclose whether it has complied with or not. Hence, the total corporate governance score would be computed on the basis of the number of best practices that have been complied with and duly disclosed in the annual report.

In Thailand, research and studies on corporate governance ratings were carried out by Thai Rating and Information Services Co. Ltd. (TRIS) (2003). TRIS developed a methodology to measure companies' corporate governance practices and to what extent their practices comply with regulations and guidelines from the Stock Exchange of Thailand (SET) and the Securities and Exchange Commission (SEC). The TRIS corporate governance rating model was based on four sets of criteria: Shareholders Rights; Composition and Roles of the Board of Directors and Management; Information Disclosure; and Corporate Governance Culture. Apart from information analysis, TRIS also interviews the company's chairman of the board, the chairman and members of the audit committee, the Chief Executive Officer (CEO) and employees as well as suppliers and outside analysts familiar with the company and the industry. Thai Rating and Information Services Co. Ltd. (TRIS) analysts use a rating tool comprising of 45 sub-categories under the four sets of criteria to find evidence that the processes, mechanisms, and practices were in use. TRIS's rating committee ranks the company on a scale of 1 (the lowest) to 10 (the highest) for each of the 45 sub-categories. Individual scores were weighted and then summed to determine a total score for each set of criteria. The final score falls into one of three rating categories, namely: if the score is between 7.0 and 10, it is considered "good to excellent", if the score is between 5.0 and less than 7.0, it is classified as "moderate", and finally if the score is less than 5.0, it would be regarded as "improvement recommended".

There was a corporate governance index (CGI) constructed in Korea. Black, Jang and Kim (2003) conducted a corporate governance survey in 2001 on 525 listed companies at Korean Stock Exchange (KSE). The index, which is on a 0-100 scales was based on five sub-indices for shareholder rights, board structure, board procedure, disclosure to investors and ownership parity. The sub-indices were based on a total of

38 separate elements. The fifth element (i.e. ownership parity sub-index) was added to measure the extent to which the largest shareholder uses a pyramidal or cross-holding structure to control more votes that the shareholder directly owns. Each element other than ownership parity was a 0-1 dummy variable that indicates whether a firm has a particular governance element. Unlike other elements, ownership parity was a continuous 0-1 variable. They did not assign weights to sub-indices or to elements within sub-indices due to lack of theoretical basis.

In India, Mohanty (2003) developed a corporate governance index using nineteen measures of corporate governance. Mohanty emphasised that the index was designed so as to consider the interests of all stakeholders and not just the shareholders especially in defining the objective of corporate governance. Therefore, the measure of Mohanty's corporate governance index (2003) was based on the considerations towards protecting the interests of all parties including the shareholders, bondholders (includes all the lenders to the company including the preference shareholders), employees, customers, suppliers, government and the society. Mohanty (2003) recognises that the company behaviour towards these stakeholders can take any of the three forms: First, if a company opts for a "Positive Form", this means that it takes extra care (more than legally necessary) of the stakeholders; second, if it falls under a "Neutral Form", it implies that the company does exactly what was legally necessary while dealing with the stakeholders; third, the company will be classified under "Negative Form" if it either does not perform the basic minimum things it was supposed to do legally or it tries to avoid the responsibility (though sometimes this behaviour is not found to be illegal). Consequently, the key feature of the negative form was that some of the stakeholders get hurt while dealing with the company, either directly or indirectly (see Table 2.2 for the details):

Table 2.2: Measures of Corporate Governance Index

Stakeholders	Measures		
	Positive Form	**Neutral Form**	**Negative Form**
Shareholders	Providing valuable and timely information to the shareholders; Exceeding projections made at the time of issue of shares.	Good quality of earnings; No investor grievances.	Asymmetric treatment of shareholders; Poor quality of earnings; Investor grievances; Consistent difference between free cash flow to equity and dividends.
Bondholders	Improvement in credit rating.	No grievance; No change in credit rating or change in credit rating due to external factors.	Downgrade in credit rating; Transfer of wealth from bondholders to shareholders; Bondholders' grievances; Default in the payment of interest and repayment of principal.
Employees	Low employee turnover; Issue of ESOPs to employees.	No strike or lockouts.	Strikes and lockouts; High employees turnover.
Customer	Customer satisfaction.	Neither in the positive nor in the negative form.	Losing to customers in court cases; Customer dissatisfaction.
Suppliers	-	Non-negative form.	Deferring payments to the supplier; Losing court cases against supplier.
Government	-	Neither of the above	Evasion of duties and taxes; Violation of other legal provisions.
Society	Building social infrastructure; Producing socially useful products; Adopting street children.	None of both measures identified.	Polluting environment; Producing socially harmful products; Reneging on commitments made to society.

Source: Mohanty's (2003)

Mohanty assigned unequal weights to the 19 measures above. Higher weight age was assigned to the governance measures relating to the shareholders compared to other stakeholders. In addition, a higher negative weight (in absolute values) was assigned to the negative-form measures as compared to the positive form measures.

Bai *et al. (*2002*)* identified a set of governance mechanisms in order to construct a corporate governance rating index, named G-Index. This index was to reflect the overall level of governance practice for China's listed companies. The variables used in this study were divided into two broad sets. The first set includes variables that have negative impact on a company's governance level: the role duality; shareholding of the largest shareholder; the firm having a parent company; and whether the largest shareholder is the state. The higher the value of each variable is, the lower the rank of corporate governance. The second set includes variables that have a positive impact on governance: the proportion of outside directors; shareholding by the top five officials of the firm; concentration of shareholding in the hands of the second to the tenth largest shareholders; and the dummy that captures whether a company has overseas listings or not. The lower the value of each variable is, the lower the rank of its corporate governance.

In Australia, Psaros and Seamer (2002) conducted a study on Australian corporate governance practices. The main objective of their study was to provide empirical evidence on the corporate governance practices of top Australian companies. Their study focuses on a fundamental element of corporate governance, which was the independence of the board of directors. Their model of corporate governance measures considers four objective factors based on publicly disclosed information pertaining to the existence and structure of a company's board of directors, audit committee, remuneration committee and nomination committee. Based on this 4-factor model, an overall corporate governance assessment and ranking was performed for each of the 250 Australian top companies. The companies will be given the highest rating of "Five Stars" if their corporate governance structure was outstanding and met all best practice standards. On the other extreme, the company will get the lowest "One Star" rating if the corporate governance structure was lacking in several areas, especially if the board of directors and the related committees contained no independent members.

In Malaysia, the first attempt to rank companies for transparency and corporate governance practices was undertaken by a team from the Malaysia Campus of Nottingham University Business School (NUBS) in collaboration with the Minority Shareholders Watchdog Group (MSWG). The research documented by Thompson (2004) looks into the level of compliance of public listed companies with listing requirements and other corporate governance recommendations. Two templates have been developed; the first template was based entirely on the recommended best practices set out in the Malaysian Code of Corporate Governance (MCCG) and the second template seeks to evaluate the level of compliance with global best practices. These global best practices were largely drawn from Sarbanes-Oxley and the revised United Kingdom (UK) Combined Code. Companies were scored "1" for each best practice recommended that was complied with and a "0" if the best practice was not complied with. Therefore, a perfect score was 40 for the first template and 60 for the second. The evaluation was based on the corporate governance disclosures in the company's annual report. The sample used for the study comprises the 100 largest public listed companies by market capitalisation as at 29 August 2003. The results show that the mean company score was 73 per cent, indicating a relatively high level of compliance with the Code. However, the scores for the second template were not so good compared to the first, whereby the mean score dropped to 53 per cent. This implies that Malaysian companies were benchmarking with the Code rather than the global best practices and they tend to do little more than what they have to do.

Based on the literature on the measures, this present study attempts to develop an extended corporate governance reporting framework which best suit the Malaysian environment. The framework was discussed further in Chapter 4.

2.6 The Role and Responsibility of the Boards of Directors

Following the 1997 Asian crisis, and with the introduction of the Malaysian Code on Corporate Governance in 2000, the overall quality of corporate governance and Board effectiveness in Malaysia has improved. Again in 2007, when the Malaysian Securities Commission (SC) revised the Malaysian Code on Corporate Governance and issued the revised Code (Finance Committee on Corporate Governance 2007), the key amendments to the Code aimed at strengthening the boards of directors and audit committees, and ensuring that the boards of directors and audit committees discharge their roles and responsibilities effectively. The amendments also spelled out the eligibility criteria for appointment of directors, and the role of the nomination committee. Based on the amendments to the Code, the changes were made on matters relating to governing the board. In consequence of this argument the need to improved board effectiveness has also been highlighted in ‘The Green Book – Enhancing Board

Effectiveness' from just 'conforming' to also 'performing' which was part of the GLC transformation program.

Boards of directors who were charged with directing and managing the business of their company were accountable to the owners of the company. They were entrusted with power to make economic decisions affecting the well-being of investors' capital, employees' security, communities' economic health, and executive power and perquisites (Banks 2004). Hence, boards of directors have the ultimate internal authority within a company (Renton 1994). The progression from control by owners to control by managers was first analysed by Berle and Means (1932), leading to what has become known as the 'agency theory' (Jensen and Meckling 1976; Fama 1983). Agency theory argues that the separation of ownership and control in modern corporations has resulted in a potential conflict of interests between the owners and their managers, in which managers may seek to act in their self-interest rather than the interest of the shareholders. Westphal and Stern (2007) added that in many instances firm managers could use their knowledge and managerial expertise to gain advantage over the firm's owner. Furthermore, Ezzamel and Watson (2005) argued that with growth in business size and complexity of operations, shareholders were not able to monitor their firm's managers. Abbas (1990) suggested that one way to resolve this problem was to align the interests of both shareholders and managers. To do this, shareholders need to appoint boards of directors to represent them to oversee the firm (Monks and Minow 2001). Their appointment is based on the assumption that each of the board members is fully accountable for their actions on behalf of the owner (Garratt 1997).

In the literature, most definitions see boards of directors as groups of individuals elected by shareholders of corporations to oversee companies (Abbass. 1990; Donaldson 1994; Bainbridge 2002; Abdullah. 2004; Kemp. 2006; Bainbridge 2008) and to ensure that the corporation was managed effectively (Young, Stedham et al. 2000). Due to the important role of boards of directors in modern corporations, legal requirements for incorporation typically state that a board of directors was set up to meet specific legal requirements when acting on behalf of shareholders in the firm's decision-making (Ezzamel and Watson 2005; Adams and Ferreira 2007). Board members, therefore, carry out various legal obligations to perform their fiduciary duties in the best interests of shareholders (Afterman 1970; Andarajah 2001; Sulaiman 2001). Such duties include hiring and firing of the CEO and top management (Hermalin and Weisbach 2002); providing strategic directions (Walt 2001; Kemp 2006); and assessing resources (Hilman 2000). In these ways, the board's success in discharging its duties directly influences shareholder values (Abdullah 2004). In the growth of reliance on boards of directors to bring stability to large businesses from the 1950s to the 1970s, boards of directors were not seen as a crucial part of the corporate governance process, because, at that time, the board was only part of a CEO's team (Banks 2004). Earlier researchers (Mace 1971; Vance 1983; Monks. 1991) claimed that earlier boards were passive, compliant and unproductive, and made little contribution to a firm's strategies. Banks (2004) argued that these boards were often more for status than overseeing the welfare of the business. Board members also tended to be 'yes men' (Stiles and Taylor 2001), generally providing 'rubber stamp' approval of virtually every matter requiring a decision (Banks 2004). In this situation, CEOs played the dominant role in company decision-making (Hamilton 2000). This pattern remained relatively unchanged until an awareness of corporate governance began to develop in the 1970s. In the years following the above developments, boards of directors have become increasingly complex.

The rapid advances in information technology and the globalisation of economies have presented potent challenges for boards (Conger, Lawler III et al. 2001; Cadbury 2002; Kiel and Nicholson 2003; Carter and Lorsch 2004). For example, Conger et al. (2001) and Dalton and Dalton (2005) felt that globalisation has led to sharp increases in the numbers and types of businesses. This has now led to many boards facing enormous challenges in dealing with their global business and operating in diverse governance and cultural situations (Gevurtz 2002). Arewa (2005) stated that the new corporate culture was also relevant in shaping how boards of directors confront the challenges that a particular business environment may pose. Although their links to a corporation may be remote, they still have to protect the long-term competitiveness of their company (Alfonso, Jikich et al. 2005).

In addition, rapid advances in information technology and the Internet have changed the business environment (O'Brien and Robertson 2009) and the roles of boards. For example, the Internet has become a major business tool, which makes the timeframe for decision-making shorter and faster (Wilson and Lombardi 2001). As a result, Conger et al. (2001) urged that speed in action is critical to the effectiveness of the board. At the same time, as more corporations use the Internet to disseminate their financial information, the public is now able to gather more information about corporate performance (Xiao, Jones et al. 2002). The ease of access to Internet stock trading has thus enabled more individuals to become shareholders of corporations (Taschler 2004). This has led to many corporations having large and diverse types of shareholders. In effect, company governance has become more complex than ever before. In these ways, information technology has changed the functions of boards, creating situations that have never been faced before. Banks (2004) argued that if boards are unaware of the impact of technology development, especially concerning the technical aspects of business, they are unable to query or challenge company management effectively.

Given such unprecedented change, many scholars assert that demands and expectations are increasingly being placed on board of directors, to meet existing and anticipated world-wide competition (Hillman, Keim et al. 2001; Ingley and Walt 2003). The emerging business environment now demands the board of directors to have various leadership competencies and which are realigned towards the future of the company (O'Brien and Robertson 2009). Hence, the shareholder expectation is that company not only continue to generate profits for economic advancement but at the same time, promotes transparency and accountability that protects their interests, as rightly stated by the Cadbury Report;

> *"The countries economic depends on the drive and efficiency of its companies. Thus effectiveness with which their boards discharge their responsibilities determines the country's competitive position".*

2.7 Integrity as Part of Corporate Governance

Fasterling (2006) claim that the contributors to the present worldwide corporate governance discussion share one common objective, and that was to restore the public faith in the integrity of business. Integrity is a continuous and ongoing process that must be monitored, maintained and nurtured (Rasmussen 2011). Rasmussen (2011) further commented that integrity will reveals the truth about a corporation. This is where Fasterling (2006) definition on corporate integrity as corporation that was being unimpaired, complete, stable functionality and about limiting behaviour that lacks integrity with regard to the corporation's use. In this respect, the approach was in agreement with sociological findings that a good standard of corporate governance was dependent upon stable institutions and functioning rule of law (Cioffi 2000; Fligstein 2001; Fligstein and Choo 2005).

While it was possible to formulate testable and refutable assumptions about integrity in terms' technical sense describing an unimpaired and stable condition, which has been recently demonstrated for financial research (Jensen 2006), it seems more intricate to use integrity as a research category to the extent that it depicts virtuous human behaviour. Thus, agency theory which specifically developed by Jensen and Meckling (1976), was one of the initial theories to address the behavioural implications of the economic actors in a firm setting, which was often necessary but overlooked by neoclassical theory. Economist have historically concentrated on the analysis of markets while treating firms as "black boxes" that simply convert inputs into outputs and act as profit-maximising entities without considering of the behaviour implications of the human beings involved in the production and management process (Jensen 1998). How the organizations were structured and how they function internally was not examined thus a firm was described as an open social subsystem of interacting individuals that process information and coordinate activities with a view to achieve some predefined objectives (Kulkami and Heriot 1999). The capacity to achieve this objective was limited by the inherent conflicts of interest among parties to the firm. Jensen and Meckling (1976) theory of agency was a step towards understanding the black box called the 'individual'.

The 'individual' refers to members of the board of directors and top management since most corporate governance subject's deal with this individual behaviour (Fasterling 2006). This was plausible, since it was the top management of firms that with help of the corporation attain the authority to direct people and resources into purposeful and productive activity. The board of directors were expected to discharge their roles and responsibilities more effectively and meaningfully but most directors were compliance fixated, therefore box-ticking and a legalistic mindset becomes the underlying philosophy that was adopted (Garratt 2007). The key issue for members of the board was to balance the directorial dilemma of managing and direction-giving. Company's can obtained a 100 percent reporting compliance score as in the case of Enron but whether their boards of directors will perform their duties and responsibilities ethically and with integrity is another issue.

2.8 Summary

Corporate governance is about commitment to values and about ethical business conduct. It is basically a system by which a company is directed and controlled for the purpose of enhancing the profitability of the company and shareholders' gain. Accountability is of paramount importance in good corporate governance. Such accountability is determined within a framework of rules and regulations within which companies operate and process decisions. Whilst the ultimate power and authority in determining the affairs of the company lies with the shareholders, it is essentially through the board of directors that the company is expected to understand and affect good corporate governance.

The next chapter will present literature review from the Malaysian perspective.

CHAPTER 3: LITERATURE REVIEW- MALAYSIA PERSPECTIVE

3.1 Chapter Description

The current chapter provides an overview on Malaysian literature. It centres on a discussion of Malaysian history and its economic setting, a brief history of Malaysian public listed companies (PLCs) and a review on ownership concentration in Malaysia. This chapter also highlight the corporate governance development and integrity initiatives in Malaysia.

3.2 Brief History on Malaysia and its Economic Setting

Malaysia was formed in 1963 with the merger of the states in Malaya, Sabah, Sarawak and Singapore (Hooker 2003). However, because this larger political entity did not function smoothly, on 9 August 1965 Singapore exited from Malaysia and became an independent country (Swee Hock 2007). Today Malaysia is a multi-cultural society, with considerable divisions based on ethnicity, religion and language. In 2008, Malaysia had a population of about 27,882 million people[1] (Economic Planning Unit 2011). *Bumiputera*[2] accounted for nearly 60 per cent of the total population, followed by Chinese 22.4 per cent, Indian 6.7 per cent and the remaining eleven per cent comprising other ethnic groups including non-Malaysian citizens. Each ethnic group maintains their separate ethnic identities and has continued practising their culture, behaviours and economics. It has been argued that they are

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[1] Bumiputera (16,630 million), Chinese (6,256 million), Indian (1,880 million), others including non-Malaysian citizens (3,116 million) (Economic Planning Unit, 2008).

[2] Literally "prince of the soil" in the Malay language and consisting of Malays, native groups in Sabah, Sarawak and Peninsular Malaysia (Lim, 2007).

relatively tolerant of each other (Guan 2000). This factor has stabilised the country. Since pre-independence, each ethnic group has played an important role in the development of the Malaysian economy (Guo Sze 2004). Chinese people in Malaysia, for example, have been in business since the nineteenth-century, particularly in tin mining, retail and wholesale trade. At the time of independence in 1957, Chinese business accounted for almost 30 per cent of the ownership shares of limited companies (Economic Planning Unit 2000). The businesses were largely family-owned and controlled, in which family members were involved in all major aspects of business operations. The development of both the *Bumiputera* and the Indian business communities were far behind the Chinese. Although the *Bumiputera* comprise the majority of the population, in 1957 they accounted for less than three per cent of Malaysian economic and corporate wealth (Economic Planning Unit 2000). Furthermore, the corporate equity for the Indian community was far behind the *Bumiputera*.

This issue has been continually debated, but no serious action has been taken by the Government. Hence, a huge economic gap has opened between the three ethnic groups since the pre-independence period. This means that separation of ethnic groups in Malaysia has occurred in culture, society and economics. To increase *Bumiputera* equity in the stock market, the government has taken various measures, starting with the formation of the Rural and Industrial Development Authority in 1957, followed by the implementation of the New Economic Policy (NEP) from 1970 to 1990. The NEP and its impact on the development of the Malaysian economy and corporate sector will be discussed in the following section. To date, the government continues to push for reform in its delivery system, with the view of making the country an attractive place to invest and conduct business.

In terms of economic development, Malaysia was originally a primary producer of tin and rubber commodities. Upon the implementation of the industrialization policy in the 1980s, Malaysia's economy has moved from being agriculture-based to a more diversified economy, especially in manufacturing, automotive production and information technology. For example, in 2000 the manufacturing sector became a leading sector of the country, contributing about 33.4 per cent to the national gross domestic product (GDP) (Economic Planning Unit 2000). In 2002, Malaysia was the world's fifth-largest exporter of semi-conductors (Economic Planning Unit 2006). With an average of five to ten per cent growth in GDP for the past five years, Malaysia became the second-fastest growing economy in South East Asia (Economic Planning Unit 2011). The success of Malaysia's economic development has been influenced by several factors such as prudent monetary and fiscal policy management, supportive legal and regulatory environment and a supportive physical infrastructure and economic deregulation (Economic Planning Unit 2011). The government continues to push for reform in its delivery system to attract local and international investors.

3.3 Brief History of Malaysian Public Listed Companies (PLCs)

The history of Malaysian PLCs can be traced from the development of the Malaysian capital market in the 1870s (Securities Commission 2004). In earlier days, the share markets traded shares in the plantation and mining industry of British companies such as Guthrie & Co Ltd, Fraser & Co. Ltd (1873), Malakoff Plantation Co Ltd (1873), Inch Rubber Ltd (1902) and Sime Darby & Co Ltd (1910). These companies also listed their shares on the London Stock Exchange. On 23 June 1930, the Singapore Stockbrokers' Association, the first formal organisation in the securities business in Malaysia and Singapore, was established. In 1938, the association was registered as the Malayan Stockbrokers Association; however, it did not provide a platform for trading of shares. Until the independence of Malaysia in 1957, the association prices were published in the Straits Times Press, as a daily price quotation section involving over 90 companies listed on the Kuala Lumpur Share Market (Securities Commission 2004). By then, there were 17 stockbrokers operating in Kuala Lumpur, Singapore, Penang and Ipoh.

On 9 May 1960, the Malayan Stock Exchange was set up to cater for the growth of commodities trading in Malaysia. Following the secession of Singapore from Malaysia in 1965, the exchange was renamed the Stock Exchange of Malaysia and Singapore (SEMS). With the termination of currency inter changeability between Malaysia and Singapore in 1973; the SEMS was separated into two: the Kuala Lumpur Stock Exchange Berhad (KLSEB) and the Stock Exchange of Singapore (SES). In December 1976, the Kuala Lumpur Stock Exchange (KLSE) was incorporated as a company limited by guarantee, to take over the operations of the KLSEB. However, Malaysian companies continued to be listed on SES and vice versa. In 1985, 183 of the 315 companies listed on the SES were Malaysian companies, which made up almost 60 per cent of the SES's total market capitalisation (Securities Commission 2004). In January 1990, the KLSE became independent from the Singapore Stock Exchange. Following demutualisation, on 14 April 2004, the KLSE was renamed Bursa Malaysia Berhad. The purpose was to enhance the

Malaysian stock exchange's position in response to global trends by making the Malaysian stock exchange more customer-driven and market-oriented (Bursa Malaysia 2008c). On 18 March 2005, Bursa Malaysia Berhad was listed on the Main Board of KLSE.

To date, the number of Malaysian PLCs has grown rapidly from 285 in 1990 to 957 at the end of 2010 (see Table 3.1). At the same time, market capitalisation of the KLSE rose from RM131.66 billion in 1990 to RM640.28 billion in 2003 (Economic Planning Unit 2006) and by 2004, the Malaysian stock market had become the largest stock market in the ASEAN region (Securities Commission 2004).

Table 3.1: Growth of Malaysian listed firms from 1990 to 2010

Year	Number of Public Listed Companies	Market Capitalisation (RM billion)
2010	957	1275.28
2009	960	999.45
2008	977	663.8
2007	987	1106.15
2006	1027	848.7
2005	1021	695.27
2004	963	722.04
2003	906	640.28
2002	865	481.62
2001	812	464.98
2000	795	444.35
1999	757	552.69
1998	736	374.52
1997	708	375.8
1996	621	806.77
1995	529	565.63
1994	478	508.85
1993	413	619.64
1992	369	245.82
1991	324	161.39
1990	285	131.66

Source: Bursa Malaysia Securities Berhad: Selected Indicators available at: http://www.bursamalaysia.com

3.4 Ownership Concentration in Malaysia

It was argued that the business ownership structure is endogenous to the firm (Banks. 2004). In the case of Malaysia, many studies found that Malaysian companies have a high concentration of ownership (The World Bank 1999; Cleassens, Djankov et al. 2000; Abdul Samad 2002; Cleassens and Fan 2002; Cheung and Chan 2004; Guo Sze 2004). This means one investor (institutional, individual or company) holds 20 per cent of the controlling votes, and no other shareholder has control of at least ten per cent of the votes through a control chain that does not overlap with at least ten per cent of the controlling shareholder (La Porta, Lopez-de-Silanes et al. 1999).

In an early study, the World Bank (1998b) found that at the cut-off of 50 per cent of Kuala Lumpur Stock Exchange (KLSE) companies in 1998; 67.2 per cent of the companies' shares were in the families' hands; 37.4 per cent had only one dominant shareholder; 13.4 per cent were state-controlled; and 85 per cent of the public listed companies had owner-managers in which the CEO, the chairman or vice-chairman position had been filled by members of the controlling family or a nominee. Similarly, in a later survey, Cleassens et al. (2000) discovered that more than two-thirds of Malaysian firms were controlled by a single shareholder, and in 60 per cent of firms, the top management was related to the family of the controlling shareholders. In another study of 731 Malaysian listed companies, Abdul Samad (2002) revealed that 71.4 per cent of these companies were under majority ownership and controlled by the five largest shareholders. In another study, On Kit and Tan (2007) discovered that the average shareholdings owned by the largest shareholder of the top 150 Malaysian companies were 43 per cent. Thus, more than 50 per cent of the top 100 Malaysian PLCs have one dominant shareholder, who owns more than 30 per cent of the issued capital of a company (see Table 3.2). This result implies that ownership concentration continues to exist in Malaysia.

Table 3.2: Range of percentage of shares owned by largest shareholders of top 100 Malaysian PLCs by market capitalisation

Range of percentage of shares	Frequency	Percentage
Less than 10 per cent	2	2
11 to 20 per cent	15	15
21 to 30 per cent	16	16
31 to 40 per cent	20	20
41 to 50 per cent	17	17
51 to 60 per cent	15	15
61 to 70 per cent	9	9
71 to 80 per cent	3	3
81 to 90 per cent	2	2
More than 91 per cent	1	1
Total	**100**	**100**

Note: Data drawn from 2007 annual reports of the top 100 Malaysian PLCs, available at: http://www.bursamalaysia.com

Concerning types of shareholders, both the government and the Chinese (individual or their proxies) were found to be the two dominant shareholders of the top 100 Malaysian PLCs. For example, based on an analysis of the top 20 companies' shareholders (see Table 3.3), the government, via its agencies (e.g. Khazanah Nasional Berhad, Employees Provident Fund Board (EPF), Permodalan Nasional Berhad and Amanah Raya Trustee Berhad), is the major shareholder of eight companies (Malayan banking, CIMB Group, Sime Darby, MISC, Tenaga Nasional, Axiata, Petronas Gas and Plus Expressway).

Table 3.3: Three largest shareholders of top 20 companies by market capitalisation

Rank	Company name	Market Capitalisation (RM'000)	Largest Shareholders (%)		
			1	2	3
1	Malayan Banking Berhad	50,536.8	AmanahRaya Trustees Berhad (44.81%)	Employees Provident Fund Board (10.90%)	Permodalan Nasional Berhad (5.92%)
2	CIMB Group	47,890.7	Khazanah Nasional Berhad (28.07%)	Employees Provident Fund Board (11.97%)	The Bank of Tokyo-Mitsubishi UFJ, Ltd (4.11%)
3	Sime Darby Berhad	47,054.1	AmanahRaya Trustees Berhad (37.4%)	Employees Provident Fund Board (14.09%)	Permodalan Nasional Berhad (12.19%)
4	Public Bank Berhad	40,405.2	Tan Sri Dato' Sri Dr. Teh Hong Piow (24.08%)	Employees Provident Fund Board (12.77%)	Consolidated Teh Holdings Sdn Bhd (7.31%)
5	Maxis Berhad	39,300.0	Maxis Communications Berhad (70%)	Employees Provident Fund Board (4.78%)	AmanahRaya Trustees Berhad (4.29%)
6	MISC Berhad	36,647.7	Cartaban Nominees Sdn Bhd Petroliam Nasional Berhad (Strategic INV) (62.44%)	Employees Provident Fund Board (8.92%)	AmanahRaya Trustees Berhad (4.00%)
7	Tenaga Nasional Berhad	35,729.1	Khazanah Nasional Berhad (35.63%)	Employees Provident Fund Board (13.96%)	AmanahRaya Trustees Berhad (9.84%)
8	IOI Corporation	31,775.5	Progressive Holdings Sdn Bhd (19.38%)	Progressive Holdings Sdn Bhd (16.00%)	Employees Provident Fund Board (11.26%)
9	AXIATA Berhad	31,162.6	Khazanah Nasional Berhad (38.86%)	Employees Provident Fund Board (13.31%)	AmanahRaya Trustees Berhad (6.83%)
10	Genting Berhad	24,936.7	Kien Huat Realty Sdn Berhad (20.85%)	CIMB Group Nominees Sdn Bhd Mandurah Limited For Kien Huat Realty Sdn Berhad (6.75%)	Kien Huat Realty Sdn Berhad (4.60%)
11	Petronas Gas Berhad	19,589.4	Cartaban	Employees	Kumpulan

			Nominees Sdn Bhd (Petroliam Nasional Berhad (Strategic Inv)) (60.63%)	Provident Fund Board (11.94%)	Wang Persaraan (5.70%)
12	PPB Group Berhad	18,375.3	Kuok Brothers Sdn Berhad (39.87%)	Employees Provident Fund Board (8.88%)	Kuok Brothers Sdn Berhad (6.14%)
13	DIGI Berhad	17,633.7	TELENOR ASIA PTE LTD (DiGi) (49%)	Employees Provident Fund Board (15.57%)	AmanahRaya Trustees Berhad (4.88%)
14	K L Kepong Berhad	16,930.6	Batu Kawan Bhd (46.57%)	Employees Provident Fund Board (12.17%)	Lembaga Kemajuan Tanah Persekutuan (FELDA) (4.43%)
15	PLUS Berhad	16,000.0	UEM Group Berhad (38.48%)	Khazanah Nasional Berhad (13.81%)	Employees Provident Fund Board (11.14%)
16	YTL Power	15,743.3	YTL Corporation Berhad (39.92%)	Employees Provident Fund Board (10.02%)	YTL Corporation Berhad (5.50%)
17	Genting Malaysia Berhad	15,652.2	Genting Berhad (15.89%)	Genting Berhad (15.89%)	Genting Berhad (14.68%)
18	AMMB Holdings Berhad	14,437.9	ANZ Funds Pty Ltd (23.78%)	Employees Provident Fund Board (11.10%)	HDM Nominees Sdn Bhd Amcorp Group Berhad (6.97%)
19	YTL Corporation	13,528.2	Yeoh Tiong Lay & Sons Holdings Sdn Bhd (40.04%)	Employees Provident Fund Board (10.37%	DB (Malaysia) Nominee Sdn Bhd – Exempt An for Deutsche Bank Ag Singapore (PWM Asing) (8.57%)
20	Hong Leong Bank Berhad	13,367.6	Assets Nominees Sdn Bhd - Hong Leong Financial Group Berhad (55.29%)	Employees Provident Fund Board (12.73%)	Hong Leong Financial Group Berhad (8.19%)

Note: Data drawn from 2010 annual reports of top 100 Malaysian PLCs, available at: http://www.bursamalaysia.com

Chinese shareholders (individual or their proxies) were the major shareholders of nine companies (Public Bank, IOI Corporation, Genting Berhad, PPB Group Berhad, KL Kepong, YTL Power, Genting Malaysia (Resort World), YTL Corporation, and Hong Leong Bank) and Indian shareholders (individual or their proxies) was the major shareholder to one company (Maxis Berhad). Only two companies, Digi Com Berhad and AMMB Holdings Berhad were owned by foreign shareholders. These results indicate that the government and the Chinese (individual or their proxies) are the two major shareholders of Malaysian PLCs, but their ownerships are restricted to local companies. These results indicate that concentration of ownership is a common feature in Malaysia. They also reflect that investors' portfolios of the Malaysian firms are not diversified (Guo Sze 2004). This implies that the dispersion of ownership that has arisen in developed countries does not apply fully to the Malaysian setting. As the World Bank (1999) concluded;

> "*The concentration of shareholders in Malaysia implies that there is no market for corporate control. Thus, there is little or no role for hostile takeover to play a disciplinary role on insiders that are not working towards the maximization of shareholders' values*". (The World Bank 1999)

Shleifer and Vishny (1997) claimed that concentration of ownership is relatively higher in less developed countries. This pattern contributes to poor corporate governance such as weak legal systems, poor law and corruption (Cleassens and Fan 2002), lack of uniform accounting standards, and poor disclosure of information (Cheung and Chan 2004). Therefore, a large shareholder in Malaysia can enforce direct interest in a company, relying on relatively simple legal interventions. As Thillainathan (1999) argued;

> "*There are many public listed companies in Malaysia and elsewhere in Asia that are family-dominated. The concentration of shareholders in public companies has been attributed to weakness in shareholders' rights or the poor enforcement of these rights*". (p. 14)

For example, the large shareholders may use their positions to extract private benefits including paying themselves special dividends (La Porta, Lopez-de-Silanes et al. 1999; Cleassens and Fan 2002), committing the company to a disadvantaged business relationship with other companies over which they have control (Singham 2003), and appointing directors who have similar outlooks to protect their interests (Gomez 2005; On Kit and Tan 2007). For instance, a study by Tan and Sendjaya (2007)found that about 30 per cent of non-executive independent directors of the largest listed firms in Malaysia were appointed through their existing network with the CEO and the largest shareholders. Therefore, it is unlikely that they can provide an adequate degree of monitoring because they feel obligated to comply with the demand of the shareholders (Cheung and Chan 2004).

However, empirical studies on the concentration of ownership in Malaysia were inconclusive. Two studies, by Dogan and Smyth (2001), and Chan (2004), revealed that concentration of ownership in Malaysia had no link to the firms' financial performance. Haniffa and Hudaib (2006), however, revealed that concentration of ownership had resulted in high-standard accounting systems. Gomez (2005) claimed that the main reason was that the dominant shareholders (who were also the owners) were trying to generate their future wealth. Nevertheless, On Kit and Tan (2007) revealed that concentration of ownership structure among Malaysian firms had not been diluted, despite the rapid growth of the Malaysian economy. It was implied that the impact of ownership concentration on firm performance in Malaysia is unclear. Perhaps one of the reasons is because the contribution of concentration ownership on the performance of Malaysian firms is still poorly understood (Guo Sze 2004), rather, it is only recognised as an alternative to the dispersed ownership structure. Thus, it is arguable whether problems attributed to the concentration of ownership influence Malaysian corporate governance.

3.4.1 The Government-linked companies (GLCs)

A number of scholars have commented that the Malaysian government is the main controller of the development of Malaysian corporations (Gomez and Jomo 1997; Thillainathan 1999; Singham 2003; Gomez 2004). This is particularly evident in privatised entities through the government-linked companies (GLCs). Malaysia is the second country in the world, after Singapore, to have the highest number of government-controlled listed companies (Cleassens and Djankov 1999). However, unlike other companies that focus on maximising profit, the government or state-owned firms also had to give consideration to their performance outcome, which reflects perceived public good (Ingley and Walt 2003).

In Malaysia, GLCs are defined as companies where the Malaysian government has the main controlling stake (Khazanah Nasional 2011). A controlling stake refers to the government's control not just over the percentage of ownership, but also in the appointment of board members and senior management, and/or making major decisions (e.g. contract awards, strategy, restructuring and financing, and acquisitions and divestments) (Khazanah Nasional 2011).

There are three types of Malaysian GLCs. The first type is where the government of Malaysia exercises control directly through Khazanah Nasional Berhad, the National Pension Fund and Bank Negara Malaysia. The second type is when the companies are controlled by the government indirectly through other federal government-linked agencies such as Permodalan National Berhad, the Employees Provident Fund, and Tabung Haji. The third type consists of companies that are controlled by the government through state agencies.

In 2010, the Malaysian government oversaw 35 listed GLCs that accounted for approximately 36 per cent of the total market capitalisation of the KLSE (Khazanah Nasional 2011). A review of the top 10 Malaysian listed companies on 31 December 2010, based on market capitalisation, indicated that the government controlled six of these companies.

Table 3.4: Malaysian Top 10 Listed Companies

Rank	**Company**	**Industry**	**Market Capitalisation (RM'000)**	**Major shareholders**
1	Malayan Banking Berhad	Finance	50,536,800	Government
2	CIMB Group	Finance	47,890,700	Government
3	Sime Darby Berhad	Trading & Services	47,054,100	Government
4	Public Bank Berhad	Finance	40,405,200	Individual
5	Maxis Berhad	Communication & Services	39,300,000	Maxis Communications

				Berhad
6	MISC Berhad	Trading & Services	36,647,700	Government
7	Tenaga Nasional Berhad	Trading & Services	35,729,100	Government
8	IOI Corporation	Plantation	31,775,500	Progressive Holdings Sdn Bhd
9	AXIATA Berhad	Trading & Services	31,162,600	Government
10	Genting Berhad	Trading & Services	24,936,700	Kien Huat Realty Sdn Berhad

Note: Data drawn from 2010 annual report of respective companies, available at http://www.bursamalaysia.com.my

In terms of financial performance, Ab Razak, Ahmad and Aliahmed (2008) found that of 210 firms listed on Bursa Malaysia, the GLCs' performance in terms of market capitalisation and accounting performance were better than the non-GLCs. As the government is a major shareholder of the GLCs, it has made a very high commitment to enhancing the performance of the GLCs. In a recent development, the government introduced various mechanisms to ensure that the GLCs have high financial performance. For example, the government has taken great pains to nominate candidates to be appointed as board members and members of top management of the GLCs. Often this process is rigorously observed and executed through proper channels (Khazanah Nasional 2011). Since GLCs employ an estimated 5% of the national workforce, benchmark for Kuala Lumpur Composite Index and remain the main service providers to the nation in key strategic utilities and services including electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking and financial services, government believes that any improvement in the effectiveness or performance of the GLCs will bring benefits not only to the government, but also to the wealth of the nation (Khazanah Nasional 2011).

3.5 Development of Corporate Governance in Malaysia

Historically, the first company law that came into force in Malaysia was the Indian Companies Act 1866 in the Straits Settlement. This was subsequently followed by the Companies Act 1897 of the Federated Malay States. These laws were then replaced by the present Companies Act 1965 after several repeals and replacements. Similar to England, the earlier legislation had already established a governance framework within which companies were required to operate and directors to perform their functions. Therefore, the Act coupled with rules of common law and equity emanating from various judicial pronouncements from our courts on duties and liabilities of directors, protection of shareholders in particular minority shareholders has provided a corporate landscape conducive to the orderly and healthy growth of the Malaysian corporate sector.

However, the economic crisis experienced by Asian countries in 1997 revealed that a number of factors have been associated with the crisis. One school of thought attributed the crisis to poor corporate governance, including weak domestic policy, ineffective boards of directors, weak internal control, poor audits, lack of inadequate disclosure and legal enforcement characteristics in corporate governance (Cleassens and Djankov 1999; Mitton 2002; Liew 2006). As the World Bank (1998a) argued;

> "*Corporate governance (in East Asian countries) is characterized by ineffective boards of directors, weak internal control, unreliable financial reports, lack of adequate*

> *disclosure, tax enforcement to ensure compliance and poor audits. These problems are evidenced by unreported losses and understated liabilities*". (pp. 67- 68)

The Asian financial crisis also exposed a number of poor corporate governance practices in Malaysia including absence of independent directors lack of impartial audit committees and independent auditors in overseeing and disciplining corporate misbehaviour (Liew 2006), lack of transparency, financial disclosure and accountability (Mitton 2002), and poor legal protection of minority investors against expropriation by corporate insiders (Cleassens and Djankov 1999).

Furthermore, significant dominance and participation of major shareholders in company management in Malaysia have allowed some of them to act in their own interests, leading to corporate misbehaviour (Khoo 2003). This has adversely affected the performance of Malaysian PLCs, leading to a number of Malaysian companies having higher leverage and a higher proportion of short-term debts (Cleassens, Djankov et al. 2000), and financial distress (Abdullah 2006b). In effect, a number of corporate collapses occurred such as Perwaja Steel Berhad, Renong Berhad and KFC Holding Berhad, due partly to the lack of effective corporate governance mechanisms (Haniffa and Hudaib 2006). This implies that poor corporate governance also contributed to the financial crisis in Malaysia.

Following the crisis, the government of Malaysia initiated some changes in order to restore greater innovation, flexibility and dynamism into the Malaysian financial system. It was argued that awareness of corporate governance in Malaysia only became stronger following the 1997/1998 financial crisis (Abdullah 2006b). The significant impact of the crisis on the nation has forced the Malaysian government, together with various authorities such as the Central Bank of Malaysia (BNM), the Securities Commission (SC) and Bursa Malaysia, to introduce a number of reforms. The kick-off for such initiatives was done by the shift of the capital market from a merit-based system (MBS) to a disclosure-based regulation (DBR) in the year 1996. Then in 1998, the Malaysian Institute of Corporate Governance (MICG) was established and latter followed by the issuance of Malaysian Code of Corporate Governance (MCCG) in March 2000. In addition, Bursa Malaysia introduced its Revamp Listing Requirement in 2001 and the Malaysian Code on Corporate Governance was revised in 2007.

Since then, the development of Malaysian corporate governance has progressed steadily and on an ongoing basis. Hence, On Kit and Tan (2007) claimed that Malaysia is the forerunner in developing and promoting a comprehensive corporate governance system in comparison with its neighbouring countries. Table 3.5 provides a chronological account of corporate governance initiatives in Malaysia after the financial crisis of 1997/1998. The success of Malaysian corporate governance reforms was reflected in a survey conducted by PricewaterhouseCoopers and the Kuala Lumpur Stock Exchange (KLSE) in 2002. The survey concluded that Malaysian corporate governance standards have improved since the issue of the MCCG in 2000. In a recent survey, the Malaysian corporate governance score was 77.3 per cent, which is higher than several other Asian countries and comparable to other developed countries such as Singapore, Hong Kong and Australia (McGee 2008).

Table 3.5: Chronological account of corporate governance initiatives in Malaysia

Year	Initiatives
1997	• Establishment of the Financial Reporting Act 1997 • Establishment of the Malaysian Accounting Standards Board (MASB)
1998	• Establishment of the National Economic Action Council (NEAC) • KLSE & PricewaterhouseCoopers first joint survey on corporate governance in Malaysia • Establishment of High Level Finance Committee on Corporate Governance • Establishment of Malaysian Institute of Corporate Governance • Amendments to Securities Act 1983 to enhance SC powers
1999	• Amendments to Companies Act 1965 to mandate compliance with Approval Accounting Standards. Section 166A • Establishment of capital market master plan
2000	• Directors required to make statutory declaration regarding compliance with approval accounting standards, Section 169(15) • Issue of the Malaysian Code on Corporate Governance • Establishment of Minority Shareholders Watchdog Group
2001	• Revamp of KLSE Listing Requirement (1993) • Education and training of directors pursuant to Bursa Malaysia's Listing Requirements • Establishment of Financial sector master plan.
2005	• Guidelines on corporate governance for licensed institutions issued by Bank Negara Malaysia
2007	• Amendments of Malaysian Code on Corporate Governance • Amendments of Companies Act 1965. Sec 167A, Act 125 outline board of directors of a listed company or a subsidiary must set-up a system of internal control to ensure that the company does not suffer from any loss.

Source: Securities Commission (2007), Malaysian Institute of Corporate Governance (2007), Bursa Malaysia (2007a)

Despite these achievements, Liew (2006) argued that the promotion of corporate governance reform in Malaysia has not been providing solutions or targeting specific local problems in the country. A study of the top 50 Malaysian public companies conducted by Standard and Poor (2004) shows that only five companies have better disclosure of their overall corporate governance practices since the standards were introduced. In addition, the Asian Development Bank (2004) reported that after five years of the promotion of Malaysian corporate governance, there is not much improvement in Malaysian Foreign Direct Investment (FDI). These findings could be due to two reasons: (1) Malaysian PLCs are still lagging behind in complying with the recommendation of best practices (Minority Shareholder Watchdog Groups and Nottingham University 2006) or (2) they are still at an early stage in appreciating corporate governance (Arif, Ibrahim et al. 2007). Some companies, especially family-owned firms, face certain challenges such as a readiness to adopt the best-practice culture, and regard the push for corporate governance as a threat to their entrepreneurial drive and spirit (PricewaterhouseCooper and Kuala Lumpur Stock Exchange 2002). Nevertheless, Arif et al. (2007) asserted that Malaysian firms have just started to put extra effort into their corporate governance and this trend is expected to continue in the foreseeable future. It implies that the implementation of the corporate governance system that was hoped to address the Malaysian financial crisis was not completely achieving its target.

3.6 Malaysian Corporate Governance Framework

The Malaysian corporate governance framework is premised on a broad-based approach (Figure 3.1), which takes into account the fundamental considerations that are needed for effective governance. These include: professional and ethical management; planning; standards and best practices; amendments to laws and guidelines; development of a code of conduct; implementing awareness programmes; and enforcement (Securities Commission 2004). At the foundation of the framework is the professional and ethical management of companies. This issue is very important because it is the first line of defence against corporate misconduct (Anwar and Tang 2003). In addition, there are also rules and regulations enforced by relevant regulatory agencies to ensure a high standard of corporate governance in Malaysia.

Figure 3.1: Holistic approach of the Malaysian corporate governance framework
Source: Securities Commission of Malaysia (2004, p. 175)

The Malaysian corporate governance framework is derived from a report on corporate governance compiled by the FCCG. The framework can be divided into internal and external perspectives (see Figure 3.2). The internal perspective often relies on the effectiveness of the board of directors as the primary internal mechanism to protect the firm (Kulasingham 2002). The board is to provide reasonable assurance of the company regarding the achievement of objectives in various forms including the effectiveness and efficiency of operations, reliability of financial reporting, safeguarding of assets, and compliance with applicable laws and regulations (Thomas 2002). The external perspective on the other hand relies on various bodies, regulations and standards.

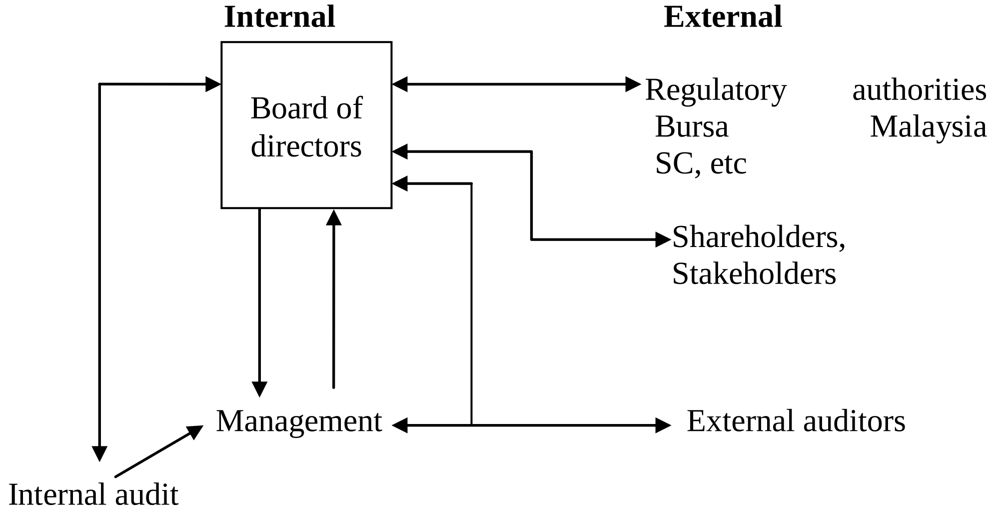


Figure 3.2: Principal players in corporate governance of Malaysia
Source: Kulasingham (2002, p.6)

3.6.1 The board of directors

The history of boards of directors in Malaysia can be traced as far back as 1965 when Malaysia introduced its own Companies Act. The Malaysian Companies Act covers issues involving corporate structure, disclosure requirements, the duties and responsibilities of the board of directors and officers, including auditors and company secretaries, as well as the reporting and compliance requirements. In relation to the role and responsibilities of the board, the MCCG has identified that the main duty of the boards of directors of Malaysian PLCs is to maintain a sound system of internal controls to safeguard shareholders' investments and the company's performance.

The recommendation in the MCCG is aimed at improving board composition and increasing the efficiency and accountability of the boards to ensure that decision-making is independent. Hence, it is recommended that a company has a well-balanced and effective board of directors. The definition of a well-balanced board, however, is arguable. Some authors have viewed a well-balanced board as referring to the characteristics of individual board members, including their functional backgrounds and knowledge and skills (Forbes and Milliken 1999; Berghe and Levrau 2004). On the other hand, the Cadbury Report (1992) defined a balanced board as a combination of executive directors, with their intimate knowledge of business, and independent directors who can bring broader views to the company.

3.6.2 The regulatory bodies

Several government agencies under the administration of three ministries act as corporate governance regulators in Malaysia. They comprise:

i. Ministry of Trade and Consumer Affairs, which oversees the Companies Commission of Malaysia (CCM); the CCM is responsible for the administration of the Companies Act 1965.

ii. Ministry of Finance, which oversees the Securities Commission (SC) and the Central Bank of Malaysia (BNM). The SC is responsible for the administration of the Securities Commission Act 1993, Futures Industry Act 1995 and Security Industry Act 1983, while the BNM is responsible for the administration of Banking and Financial Institutions Act 1989.

iii. Ministry of Trade and Industry (MITI), which is responsible for the Industrial Co-ordination Act (ICA) 1975. It gives approval for the issuance of securities by manufacturing companies.

This implies that there is no single regulatory body that has full power of overall corporate governance in Malaysia. Nevertheless, four regulatory bodies that have played significant roles as enforcers for good corporate governance include the

Securities Commission (SC), Bursa Malaysia (formerly known as the KLSE), the Company Commission of Malaysia (CCM) and the Central Bank of Malaysia (BNM). The main functions of these regulatory bodies are summarised in Table 3.6.

Table 3.6: Malaysian corporate governance regulatory bodies and institutions

Regulatory bodies	**Main function**
CCM	Is responsible for the administration and enforcement of the following legislation: • Companies Act 1965 (ACT 125); • Registration of Businesses Act 1956 (Act 197); • Trust Companies Act 1949 (Act 100); • Kootu Funds (Prohibition) Act 1971 (Act 28); • Any subsidiary legislation made under the Acts specified above such as companies Regulations 1966 and registration of Business Rules 1957. • Administer of CLRC.
SC	• Main regulator of the securities and capital market. • Ensure enforcement of securities and future laws. • Licence, regulate and supervise market institutions and licensed intermediaries. • Encourage and promote the development of the capital market.
Bursa Malaysia	Front-line monitoring of the compliance of public-listed companies including their reporting requirements, market trading activity, public complaints and other matters related to listing requirements including compliance with the Malaysian Code on Corporate Governance.
BNM	Regulate and supervise financial institutions who are exempt dealers under the Securities Investment Act (SIA).

Note: CCM (Company Commission of Malaysia), SC (Securities Commission), BNM (Bank Negara Malaysia,)

Despite having a well-established regulatory framework, an Asian Development Bank study (1998) criticised many omissions and loopholes in the legislation in Malaysia. Further, the World Bank (2005a) reported that one of the key weaknesses in Malaysian corporate governance development was the overlapping authority and ambiguous accountability of the regulatory institutions. The overlapping roles occur because there has never been a systematic and coherent revision of the overlaps, conflict and duplication of roles (Companies Commission of Malaysia 2004). This has led to weakness in its enforcement in the Malaysian corporate governance regulatory system (Khoo 2003).

Furthermore, the World Bank (2005a) argued that none of these agencies has absolute power to regulate all matters pertaining to corporate governance. The CCM, although it is the ultimate agency to regulate the Companies Act 1965, has no authority to institute civil actions on behalf of shareholders who have suffered loss or damage as a result of a company's violations (Thillainathan 1999). Thus, the CCM has been perceived to be ineffective in safeguarding the victims of such violations (Yeoh and Fariza 2006). On the other hand, since the SC reports to the Ministry of Finance, the close ties between the SC and the Ministry of Finance raises the question of whether the SC is a truly independent regulatory body consistent with international good practices (The World Bank 2005a). As a consequence, the insolvency procedures are, in general, slow, ineffective and costly (Singham 2003). Perhaps this is because different ministries, which carry out different functions and regulate different acts, have controlled Malaysian corporate governance.

To enhance regulatory and enforcement activities in Malaysia, on 17 December 2003, the CCM initiated the establishment of a Corporate Law Reform Committee (CLRC) to undertake a review of Malaysian legislation, statutory policies and standards, in order to maintain and enhance the viability of doing business in Malaysia. The CLRC has undertaken a holistic approach in reviewing the various Malaysian company laws to facilitate the current environment (especially the impact of new technologies). The review also covered the current enforcement and investigatory powers of the regulatory authorities, in relation to the appropriate mix of legal and self-regulatory rules to secure compliance (Companies Commission of Malaysia 2004).

In short, although there are some weaknesses in the corporate governance regulatory framework in Malaysia, various initiatives have been undertaken to improve such weaknesses.

3.6.3 Establishment of institutions and associations

In addition to the establishment of the regulatory framework, the establishment of the Malaysian Institute on Corporate Governance (MICG) and the Minority Shareholder Watchdog Group (MSWG) has also strengthened the Malaysian corporate governance system. The MICG, established in March 1998, is a non-profit public company limited by guarantee. MICG's main objective is to raise public awareness and practice of good governance in Malaysia. Hence, MICG is dedicated to facilitating business and corporate development throughout the country through the improvement of corporate best practices (Abdul Hadi, Fadzilah et al. 2005). Its activities include:

- conducting regular seminars and talks on corporate governance issues jointly with various professional bodies and industry groups
- conducting education public seminars, especially for investors
- providing assistance for various regulatory agencies in developing training programmes for directors of PLCs

- networking with international organisations such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, the Asian Development Bank and other corporate governance institutions
- developing a multi-disciplinary institute for service, research and education in corporate governance

The MSWG on the other hand, formed in August 2000, is an independent body that initiates shareholders' activism to ensure shareholders' equality and value maximisation. Here, the MSWG's main role is to protect minority shareholders' interests in Malaysian PLCs. It also conducts corporate monitoring and provides professional proxy services for Malaysian public companies.

The MSWG was set up with an annual funding (of RM300, 000 each) from five government-linked investment agencies: Lembaga Tabung Haji, the Social Security Organisation, the Employees Provident Fund, Perbadanan Nasional Berhad and Lembaga Tabung Angkatan Tentera. These agencies are also the major institutional investors in the Malaysian capital market. Hence, the MSWG is not perceived as being independent, as the majority of its directors are representatives of the founding members.

3.6.4 Development of codes of conduct and industry best practices

Apart from statutory development, Malaysian corporate governance development has also been supported by the development of codes of conduct and industry best practice. The two important non-legislative regulations are the development of the

Malaysian Code on Corporate Governance (MCCG) in 2000; and the establishment of the KLSE Listing Requirements in 1993.

The Malaysian Code on Corporate Governance (MCCG), which was formally established in March 2000, is considered the landmark in Malaysian corporate governance reform. It codified the principles and best practices of good governance and described optimal corporate governance structures. The Malaysian Code on Corporate Governance (MCCG) was largely derived from the recommendations of the Cadbury Report (1992) and the Hampel Report (1998) in the UK. It represents a milestone in government industry collaboration, because the Malaysian Code on Corporate Governance (MCCG) is itself a product of an industry-led working group set up under the auspices of the FCCG.

The need for a code also results from economic forces and the need to reinvent the corporate enterprise to efficiently meet emerging global competition. The world's economies are tending towards market orientation. In market oriented economies, companies are less protected by traditional and prescriptive legal rules and regulations. Hence, Malaysian Code on Corporate Governance (MCCG) set out principles and best practices associated with structures and processes that companies may use in their operations to achieve a high corporate governance standard. Malaysian Code on Corporate Governance (MCCG)has outlined 13 principles of conduct including board effectiveness, directors' remuneration, accountability and auditing, and shareholder protection, together with 33 best corporate governance practices to assist Malaysian companies in designing their approaches to corporate governance (see Appendix 6 for details). At the same time, companies are allowed to establish their own corporate governance system; however, they must ensure that they comply with the Malaysian Code on Corporate Governance (MCCG) principles.

In 2007, the Malaysian Code on Corporate Governance (MCCG) was revised. The revised version represents the continued collaborative efforts between the government and the industry such as the Securities Commission (SC), the Companies Commission of Malaysia, Bursa Malaysia Berhad, Bank Negara Malaysia, the Bar Council, the Federation of Public Listed Companies, the Malaysian Institute of Corporate Governance, the Minority Shareholders Watchdog Group, the Malaysian Accounting Standards Board, the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants, the Institute of Internal Auditors Malaysia, the Malaysian Institute of Chartered Secretaries and Accountants and the Malaysian Investment Banking Association.

The key amendments to Malaysian Code on Corporate Governance (MCCG) aim to strengthen boards of directors and audit committees and to ensure that board of directors and the audit committees discharge their roles and responsibilities effectively (Securities Commission 2007c). The amendments spell out the eligibility criteria for the appointment of directors and the role of the nominating committee. On audit committees, the amendments clarify the eligibility criteria for appointment as an audit committee member, the composition of audit committees, the frequency of meetings and the need for continuous training. In addition, internal audit functions are now required in all public listed companies (PLCs) and the reporting line for internal auditors clarified. For ease of reference, elaborations of the amendments (boxed) are provided in Part 2 of the Code.

Nevertheless, it has been argued that as the Malaysian Code on Corporate Governance (MCCG) was derived from recommendations made in the UK, the principles outlined in the Malaysian Code on Corporate Governance (MCCG) may not necessarily be applicable to Malaysian corporate governance because the Malaysian business environment is different from that of the UK (Haniffa and Hudaib 2006). For example, as the majority of Malaysian PLCs have a concentration of ownership and cross-holdings of share ownership (Thillainathan 1999), corporate control has not actively been influenced by the market (OECD 2004) compared with UK companies. Therefore, the impact of codes of corporate governance found in the UK may not necessarily be applicable to Malaysian corporate governance.

To ensure that all Malaysian PLCs provide sufficient disclosure for investors, and others to assess companies' performance and governance practices, they are required to provide a narrative statement (MCCG 2000). Indeed, some companies have published compliance checklists in their annual reports. Unfortunately, it was argued that this became just a matter of ticking boxes and so became meaningless (Berry 2007). Nevertheless, three years after the introduction of MCCG, it has been found that the stock price performance of 440 firms listed on Bursa Malaysia Berhad (KLSE) had increased by an average of about 4.8 per cent (Abdul Wahab, How et al. 2007). It seems therefore, that the implementation of Malaysian Code on Corporate Governance (MCCG) has had a positive impact on Malaysian PLCs' performance.

The Bursa Malaysia Berhad (KLSE) Listing Requirements, which was developed in 1993, is another kind of major watchdog that oversees public listed companies in Malaysia. The Listing Requirements specifically address key issues including substantial and related party transactions, board composition, the role and function of audit committees, directors' rights, training, and disclosures, in relation to the state of controls and compliance with the Malaysian Code on Corporate Governance (MCCG). In January 2001, the Bursa Malaysia Berhad (KLSE) Listing Requirements underwent a comprehensive revamp, and the new version became known as the Bursa Malaysia Berhad (KLSE) Revamped Listing Requirements. This exercise was partly to implement major recommendations of the FCCG's report. It aimed to raise the standard of conduct of directors and company officers of public-listed companies and to promote the development of effective internal governance and compliance (The World Bank 2005b).

Para 15 of the new Bursa Malaysia Berhad (KLSE) Listing Requirements requires all Malaysian PLCs to disclose their compliance with the Malaysian Code on Corporate Governance (MCCG) in their annual reports. All Malaysian PLCs must ensure that they place the following two statements in their annual reports:

i. a narrative statement of how the listed issuer has applied the principles set out in Part 1 of the Malaysian Code on Corporate Governance to their particular circumstances; and
ii. a statement on the extent of compliance with the Best Practices in Corporate Governance, set out in Part 2 of the Malaysian Code on Corporate Governance "which statement shall specifically identify and give reasons for any areas of non-compliance with Part 2 and the alternatives to the Best Practices adopted by the listed issuer, if any".

The new Listing Requirements aim to regulate Malaysian PLCs to be more transparent and accountable for their actions to gain investors' confidence. Indirectly, it is also envisaged that these efforts will in turn encourage the country's economic growth as well as the inflow of foreign direct investment.

3.7 Integrity Initiatives in Malaysia

When the National Integrity Plan (NIP) was accepted by the Malaysian Government as a plan of action to enhance ethics and integrity on 23 April 2004 at Putrajaya, its overall objective was to realize the aspirations of vision 2020, that is;

> "*To establish a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards.*" (Badawi 2004)

The NIP has the following objectives:

- Giving direction and guidance to various sectors so that they will work together to build a united, harmonious, moral and ethical society;
- Raising awareness, commitment, and cooperation among all sectors in their efforts at enhancing integrity so that integrity becomes a way of life and practiced in all fields;
- Encouraging a sense of accountability among members of the community and to promote the development of civil society that respects and upholds the principles of integrity;
- Contributing towards strengthening the moral foundations of the community and country, and improving the well-being of the community; and

- Raising the competitiveness and resilience of Malaysia in meeting the challenges of the 21st century, especially the challenge of globalization.

Ethics and integrity are two key words or concepts that run through the NIP. It demonstrates the Malaysian's Government's commitment to achieving economic progress that is consistent with good personal values and ethical corporate conduct (Government of Malaysia 2004). In order to achieve its objectives, the NIP has identified a set of priorities and targets. For the first five years (2004 – 2008), the NIP identified five priorities known as Target 2008, which are as follows:

i. effectively reduce corruption, malpractices and abuse of power;
ii. increase efficiency of the public delivery system and overcome bureaucratic red tape;
iii. **enhance corporate governance and business ethics**;
iv. strengthen the family institution; and
v. improve the quality of life and people's well-being.

In order to achieve NIP, the government established the Malaysian Institute of Integrity (MII) which will act as a mechanism to promote and coordinate the implementation phase, (Government of Malaysia 2004). The MII objectives is to monitor the implementation of the NIP by carries out researches, holding seminars and training and courses as well as gathering feedback on integrity issues.

The NIP has identified the main concerns of the private sector with regard to integrity to be corporate governance and business ethics. The government is also aware that the private sector is the prime mover of economic growth in Malaysia. The movement to enhance integrity in the private sector is guided by the NIP but nonetheless, there is no measurement instrument to measure the results thus far following the introduction of the NIP in 2004 (Ravendran 2006).

3.8 Summary

Great emphasis has been placed on good corporate governance practice in the public and private sectors globally, over the years. This has led to the formation of the High Level Finance Committee on Corporate Governance in Malaysia, a partnership effort between the Malaysian government and the private sector. The Finance Committee has fulfilled its role and established a framework for corporate governance, best practices for the industry in the country and other reforms and initiatives. The last decade also has witnessed the increase in the number of institutional and individual investors who are more sophisticated and conscious of their rights. They have high expectations of the people who run the companies in which they have invested as the conduct of proper governance practices today is a complex exercise.

A business conglomerate that is big, powerful and dynamic today could end up bankrupt tomorrow if the issues pertaining to corporate accountability are not understood and reviewed from time to time. The study opens up a new frontier by introducing integrity concept to corporate governance practices measurement. It is therefore essential not only to ensure that serious oversights and errors are avoided and compliance with laws, rules and guidelines are maintained but that corporate integrity becomes the norm guiding corporate behaviour.

The next chapter will present the theoretical framework of the study.

CHAPTER 4: THEORETICAL FRAMEWORK

4.1 Chapter Description

The current chapter centres on the theoretical framework for the study. Section 4.2 explains about the underlying theories for the research. Section 4.3 describes the research framework, identifies the variables under investigation and defines the variables. Section 4.4 identifies the research propositions and questions, which form the basis for this investigation.

The aim of this research was to propose an assessment instrument for corporate integrity using corporate governance indicators. Agency theory was the theory underlying the study framework. The theory leads to the need for corporate governance to protect the interests of those contracting parties in a company. The theory also provides a natural basis for the auditing model in a decision setting involving moral hazard. The auditing model which agency theory provides only centres on the verification of financial reports by the auditor to confirm of the reliability of the financial information, thus other information that the board of directors and management (agent) of the firm provides/disclosed to the shareholders / owners in the annual report was absent of verification. These incentives arose because the annual reports were seen as a communication medium between owners and management. Shareholders / owners rely on annual report in order to know what was happening in the company in which they invest. As the board of directors were responsible to deliver sufficient information to shareholders and were entrusted by the owners to control the company, agency theory suggest that it is meaningful to verify the accuracy and reliability of information in the annual reports and hence reflect the actual corporate governance practices in a firm.

This study contributes to Agency theory by proposing a new auditing model (Figure 10.1) which integrate the behavioural implications of the human beings (board of director and top management) involved in the production and management process and introducing the integrity concept (consistency of corporate governance reporting and perceptions) in corporate governance research. Kimber and Lucas's (2001) integrity concepts were integrated in the model. The proposed model would provide an auditing model to verify corporate governance reporting.

4.2 Theories

The theory of the firm which proposed by Jensen and Meckling (1976) was based upon conflicts of interest between various contracting parties; namely shareholders, corporate managers and debt holders, a vast literature has developed in explaining both the nature of these conflicts and means by which they may be resolved. Eisenhardt (1989) notes that the main focus of the theory in the agency relationship is the selection of appropriate governance mechanisms between principal and agents that will ensure an efficient alignment of principal and agent interests. Thus, the interests between principal and agent are not necessarily harmonious. This has implications for, among other things, corporate governance and business ethics.

The essence of agency theory rests on the assumptions that: first, all parties involved in the relationship will act rationally and will attempt to maximise their benefits. Thus, it is expected that the agent's self-interest will diverge from the principal's interest; second, it is difficult or expensive for the principal to verify what the agent is doing. This is known as the agency problem (Eisenhardt 1989). Hart (1995) also highlighted that corporate governance issues arise in an organization whenever there is an agency problem. According to the theory, the principal-agent relationship leads to the incurring agency cost which is defined as the sum of the principal's monitoring expenditures, the agent's bonding expenditures and any remaining residual loss (Hill and Jones. 1992).

Agency costs also arise whenever there is an "information asymmetry" between the corporation and outsiders because insiders (the management) know more about a company and its future prospects than the outsiders (shareholders) (Jensen and Meckling 1976). Eisenhardt (1989) notes the important of selection on appropriate governance mechanisms between principal (shareholders) and agents (the management) that will ensure an efficient alignment of principal and agent interest. Thus the desires and goals of agents (the management) and principal (shareholders) may not be in accord and it is difficult for the principal (shareholders) to verify the activities of agents (the management). A monitoring mechanism in the form of regular reports is necessary to provide an account of the manager's performance. As a corollary, management recognizes the desirability of an audit (Gill, Cosserat et al. 1999). Verification is the essence of auditing thus, a model of auditing therefore centres on the verification of financial reports that the management of the firm provides to the shareholders / owners. A main reason why there exists a demand for the confirmation of these reports is that, in the absence of verification, the management then has incentives to misrepresent the financial condition of the firm.

These incentives arise because the financial reports are used to evaluate management's performance, which is costly to observe directly.

Agency theory provides a natural basis for the auditing model in a decision setting involving moral hazard. As mentioned earlier, the theory models the contractual relationship between a principal and agent, which consists of the *owner-principal* and the *manager-agent*. Therefore, within this setting, it is assumed that the owner hires an auditor to produce information used in contracting with the manager. Thus, the auditor is also an agent and is modelled as such. On the other hand, the board is viewed as a market-induced institution, the ultimate internal monitor of the set of contracts called a firm, whose most important role is to scrutinize the highest decision makers within the firm (Fama 1980). In other words, in general, it is the agency theory that leads to the need for corporate governance to protect the interests of those contracting parties.

4.3 Theoretical Framework

The aim of this research is to propose an assessment instrument for corporate integrity using corporate governance indicators. Currently, limitations to the rule-based governance system has been found in prior studies, the present research will make a contribution to knowledge by providing empirical evidence regarding the use of corporate governance indicators in assessing corporate integrity. This can be achieved by conducting the three stages in the data collection described in chapter 5.

4.3.1 Identification of the variables under investigation

For this research, the variables identification drew on a Malaysian study on corporate governance. Omar et al (2004), measured corporate governance reporting and its effect on the financial performance of public listed companies in Malaysia. The study critically examined two sources of corporate governance information for their theoretical framework. The first source of information was obtained from the *Malaysian Code on Corporate Governance* (MCCG) itself. The Code divides corporate governance information into two main categories: *Principles of Corporate Governance* and *Best Practices in Corporate Governance*. The Practices includes those items proposed by other organisations worldwide.

The second source of corporate governance information was from various worldwide studies on corporate governance. The model developed in this study was based upon factors identified in national and international best practice guidelines and other research studies. These include the Organization for Economic Cooperation and Development's (OECD) *White Paper on Corporate Governance in Asia* (2003); the International Federation Of Accountants Committee's (IFAC) *Credibility Report* (2003); Australian Stock Exchange's (ASX) *Principles of Good Corporate Governance and Best Practice Recommendations (2003)*; Howarth's *Corporate Governance Reports* (2002, 2003); ICRA (India 2003); Standard and Poor (2000); Credit Lyonnais Securities Asia (2001); Ramsey Report (2003); UK Hempel Report (1998); USA Blue Ribbon Committee Report (1999); Ernst & Young's Report on Corporate Governance (2002), Price Waterhouse Cooper's Illustrative Annual Report (2003) and the Malaysian Code on Corporate Governance (2007c).

From the analysis of the above sources of corporate governance information, Omar's Corporate Governance Score Checklist was developed based on eight main Corporate Governance attributes. The Corporate Governance Score Checklist is as listed below:

i. Strategic Planning and Performance Management *(World Best Practice)*

ii. Board, Committee and Management *(Basic Principles)*

iii. Risk Management and Internal Control *(Basic Principle & Best Practice)*

iv. Ownership Structure and Concentration *(Basic Principles)*

v. Accountability and Transparency *(Basic Principles)*

vi. Stakeholders Relationship *(Basic Principles and Best Practice)*

vii. Business Ethics and Responsibility *(World Best Practice)*

viii. Intellectual Capital *(World Best Practice)*

The identification of variables for this study resulted from the analysis of both Omar et all's (2004) corporate governance reporting framework and the revised Malaysian Code on Corporate Governance (2007c). Seven main corporate governance indicators were identified to be investigated in this study. The corporate governance indicators are shown in figure 4.1.

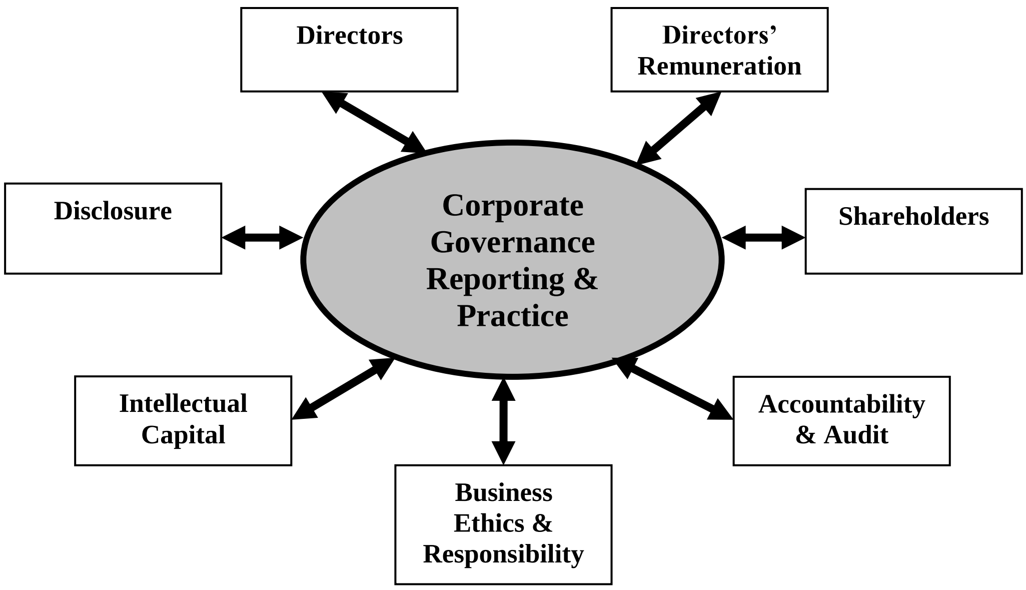


Figure 4.1: Model of Corporate Governance Reporting and Practice

The seven indicators were listed as follows:

i. Directors *(Basic Principle & Best Practice)*

ii. Directors' Remuneration *(Basic Principle)*

iii. Shareholders *(Basic Principle & Best Practice)*

iv. Accountability and Audit *(Basic Principle & Best Practice)*

v. Business Ethics and Responsibility *(World Best Practice)*

vi. Intellectual Capital *(World Best Practice)*

vii. Disclosure (*Compliance- Listing Requirements of Bursa Malaysia*)

Indicators (v) and (vi) were the recommendations from worldwide studies on corporate governance; indicator (vii) was the corporate governance reporting compliance spelt out by the *Listing Requirements of Bursa Malaysia* under paragraph 15.26, while the remaining ones was based on the recommendations of the revised Malaysian Code on Corporate Governance. Variables used to measure each of these seven indicators were developed from the codes and guidelines of corporate governance practices.

The framework developed by Omar et al (2004) primarily focuses on Corporate Governance reporting that was purely based on information divulged in the public listed companies' annual reports. It highlights the companies with the highest scores vis-à-vis reporting on their corporate governance practices and the areas in which they excel. In short, it only involves detailed analysis of documentation. No effort was made to ask the perceptions and opinions of boards of directors or the top management teams about their company corporate governance in order to validate the accuracy of information presented in the annual reports or any other publicly available information.

Omar's study only took at "face value" that all information provided in the reports had obtained prior endorsement from the management of the public listed companies. The study result was just a "snap shot" analysis and the results obtained in the study may not imply that the corporate governance practice of the firm is also accordingly reflected. The study scores may only indicate the level of awareness in corporate governance reporting by the public listed companies on those key corporate governance areas. A Singaporean corporate governance study (Thompson and Hung 2002) concluded that in their sample, a less profitable organization seemed to report more on their corporate governance conformance compared to their more profitable counterparts. As such, the results must be treated with caution, as the actual corporate governance practice must be validated to ensure its accuracy and reliability.

In this thesis, the framework developed by Omar et al (2004) has been extended to produce a more comprehensive reporting framework in order to confirm the accuracy and reliability of the reported information which will then assess integrity value. The study used an auditing model that verified corporate governance reporting (Jensen 1998). The extended framework includes board of directors and top management perceptions and opinions about their company corporate governance practices. Benchmarking corporate governance reporting against board and top management perceptions and opinions on company corporate governance reflects integrity value which is being shown in Figure 4.2 below.

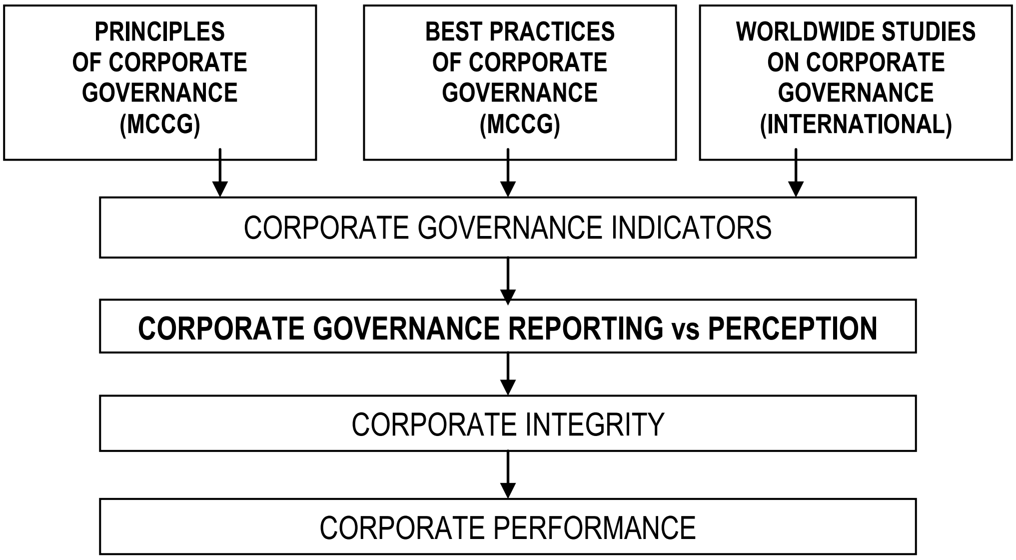


Figure 4.2: The Overview of the Theoretical Framework

The new framework will validate corporate governance reporting against corporate governance perception in order to confirm the accuracy and reliability of the information presented in the annual reports or in any other publicly available information. The study assessed company integrity by examining the consistency between corporate governance reporting and corporate governance perceptions. Corporate governance reporting referred to the corporate governance reports, in the annual report, a common method used to analysed corporate governance practices (Horwath 2002). Corporate governance perceptions referred to the responses of the board of directors and top management survey of their perceptions and opinions on their company corporate governance.

The approach of aligning corporate governance reporting and corporate governance perception introduces the integrity concept into the study. Consistency of values and actions or words and deeds were how the integrity concept was defined by Kimber and Lucas (2001) and was the definition adopted in this study. Since the objective of corporate governance is to restore public faith in the integrity of business, it would be meaningful to introduce the integrity concept into corporate governance research (Fasterling 2006). Figure 4.3 presents the detail theoretical framework for the study.

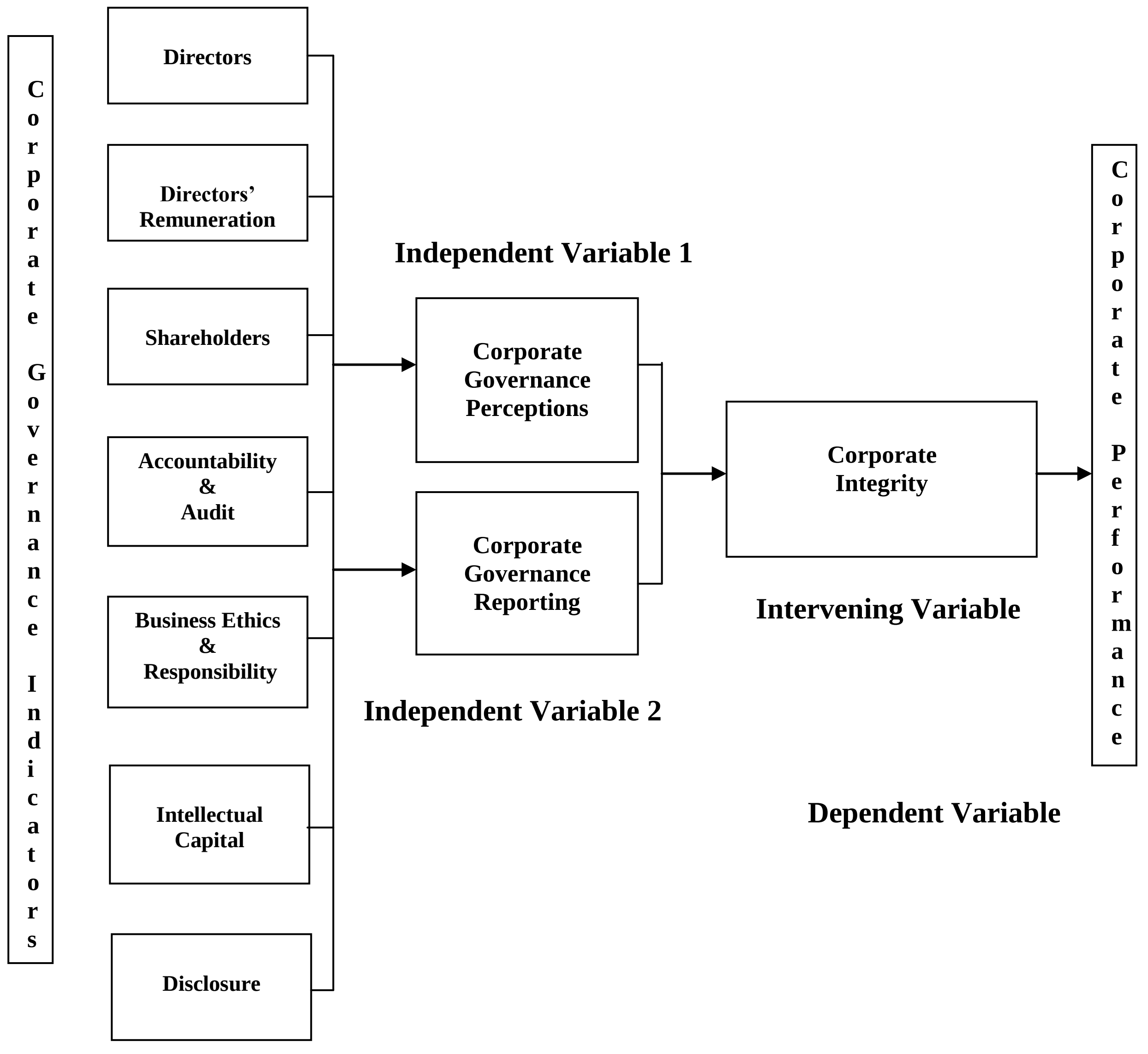


Figure 4.3: The Details of the Theoretical Framework

4.3.2 Defining the study variables

Directors *(Basic Principle & Best Practice)*

The first indicator in figure 4.3 relates to the role of the Board of Directors (BOD). It covers both basic principles and best practices of corporate governance based on the recommendations of the Malaysian Code on Corporate Governance. There were five important aspects addressed under basic principles: the board, board balance, supply of information, appointments to the board and re-election.

Best practices for the board of directors recommended by the Malaysian Code on Corporate Governance were the principal responsibilities of the board, practices that constituting an effective board, proportion of non-executive participation, appointments to the board, size of boards, directors' training, board structures and procedures, relationship of the board to management, quality of information, access to information, access to advice and use of board committees.

Directors' Remuneration *(Basic Principle)*

The second indicator relates to 'Directors' Remuneration'. The indicator refers to basic principles of corporate governance recommended by Malaysian Code on Corporate Governance. Among the basic principles set out were the level and make-up of remuneration, procedure and disclosure on director remuneration.

Shareholders *(Basic Principle & Best Practice)*

The third indicator looks at the dialogue between companies and investors and the relationship between the board and shareholders at the annual general meeting (AGM). This refers to the communication that exists between board, management and investors. The indicator was based on basic principles and best practices of the Malaysian Code on Corporate Governance.

Accountability and Audit *(Basic Principle & Best Practice)*

The fourth indicator relates to board responsibility and accountability towards a firm's shareholders. Both basic principles and best practices recommended by the Malaysian Code on Corporate Governance were referred to in formulating the indicator. The basic principle includes financial reporting, internal control and relationship with auditors. The best practices addressed the audit committee function where it strives to strengthen the role of audit committees by requiring the committees to comprise fully of non-executive directors. In addition, all its members should be able to read, analyse and interpret financial statements so that they will be able to effectively discharge their functions.

Business Ethics and Responsibility *(World Best Practice)*

The fifth indicator relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities in fulfilling their obligations. Ironically, the issue of "Business Ethics" has not been explicitly addressed by the Malaysian Code on Corporate Governance. Instead it is implicitly required through other Best Practices requirements such as "disclosure of activities" and "description of limits to management responsibilities". The issue is however widely covered by other corporate governance studies elsewhere (for example Oxfam, 2002; IFAC, 2003). "Responsibility of the Board" on the other hand is spelt out explicitly in the Malaysian Code on Corporate Governance through both its Basic Principles and Best Practices guidelines.

Intellectual Capital *(World Best Practice)*

The sixth indicator relates to how the board recognizes intellectual capital as one of the most important assets in an organization. The concept of "Intellectual Capital" is relatively new, hence not explicitly covered by the Code. Nevertheless, some recent studies (for example Westpac, 2003; CRISIL, India 2002 and Institutional Shareholder Services ISS, 2002) have included this concept in the forms of "directors training", "innovation", "management experience", "human capital" and employees continuing education.

Other researchers, examples are Lynn, (2000) and Roos et al., (2003) generally recognize 3 major underlying components of Intellectual Capital namely: (1) human capital (the human centre assets which comprise of the collective expertise, creative and problem solving capability, leadership, entrepreneurial and managerial skills embodied in the employees of the organization), (2) customer/relation capital (knowledge embedded in the marketing channels and relationships that an organization develops through the course of conducting business such as suppliers, customers, partners, local communities and government), (3) structural/organizational capital (all other forms of Intellectual Capital. Examples are organizational operating systems, manufacturing processes and organizational culture). It is addressed in this study, as it is expected that this concept is gaining in importance within organizations. As such, the contextual variables used by recent studies are adapted.

Disclosure (*Compliance*)

The last indicator refers to paragraph 15.26 of the *Listing Requirements of Bursa Malaysia* which requires all listed companies to state in their annual reports how they have applied the *basic principles*, the extent to which they have complied with the *best practices*, identify and give reasons for areas of non-compliance and where applicable, state the alternative practice(s) adopted. For this study, it is expected that the company Board of Directors (BOD) should be responsible and transparent towards the firm shareholder. As a show of responsibility, the BOD must be "transparent" in disclosing pertinent information to the shareholder. Transparency indicates the extent to which the Board of Directors responsible in ensuring the management team disclose it to the public.

The above corporate governance indicators were identified based on Omar et al's (2004) corporate governance reporting framework and the revised Malaysian Code on Corporate Governance (2007c). The variables used to measure each of the indicators investigated in this study were developed from the Malaysian Code on Corporate Governance (2007c) and guidelines of corporate governance practices.

4.4 Research Propositions and Hypothesis

Agency theory, specifically which developed by Jensen and Meckling (1976), was one of the initial theories to address the behavioural implications of the economic actors in a firm setting where it takes a step towards understanding the black box called the 'individual'. The behaviour implications of the human beings involved in the production and management process (Jensen 1998) were included in the study through investigation of their perceptions and opinions. The auditing model which agency theory promotes only centred on the verification of financial reports by the auditor, thus other information that the board of directors and management (agent) of the firm provides to the shareholders / owners in the annual report was absence of verification.

Use of corporate governance perceptions and opinions obtained from a survey of members of boards and top management was designed to validate, i.e., confirm the accuracy and reliability of the information presented in the annual reports or in any other publicly available information. Measurement of the consistency between the reported information and the perception of the board of directors and top management regarding company corporate governance relates to the integrity concept which was introduced in this study. The research propositions and hypotheses drawn intend to answer the research questions which form the basis of the research investigation.

The study intends to answer whether corporate governance indicators can be used to model and assess corporate integrity. Each of the corporate governance indicators identified in modelling and assessing corporate integrity were tested to determine its importance. Measures of corporate integrity were developed and investigation of the relationship between corporate integrity and corporate performance were explored. Specifically this study aimed to answer the following research questions:

i. What were the current corporate governance practices among Malaysian government link companies (GLCs) and what was the understanding of the corporate integrity concept?
ii. What corporate governance indicators could be used to model and assess corporate integrity?
iii. How important was each of the corporate governance factors identified earlier in modelling and assessing corporate integrity?

iv. What was the level of integrity in the Malaysian government link companies (GLCs)?

v. What was the relationship between corporate integrity and corporate performance?

Guided by the framework outlined in Figure 4.3, the following propositions and hypotheses with their justifications were employed to finalise the arguments.

4.4.1 Corporate governance indicators that can be used to model and assess corporate integrity and its importance.

The National Integrity Plan (NIP) has also identified corporate governance as one of the main element concerning integrity to the private sector. Razak (2005) commented that a good corporate governance practice in an organization can promote integrity and sustain economic prosperity.

The study developed measures of this construct and proposes that corporate governance indicators can reliably measure and assess integrity.

Proposition 1: Corporate governance indicators can model and assess corporate integrity.

Proposition 2: The higher the level of total variance explained by a factor, the greater the importance of the factor in modelling and assessing corporate integrity.

4.4.2 The measurement of corporate integrity.

Previous research shows that there was an ongoing debate on the appropriate approach to assessing and analysing corporate governance practices. The common techniques used to analyse corporate governance practices were based on reviewing annual reports (Horwath 2002), but there was no assurance on the accuracy and reliability of reported information. A study conducted by Thompson and Hung (2002) suggested that a less profitable organization seemed to report more on their corporate governance conformance compared to their more profitable counterparts, as such the disclosed information need to be treated with caution. Kraakman (2004) argues that inaccurate disclosures were difficult to detect and that where disclosure was accurate, they may still have hidden implications that was difficult to uncover. The literature review which described previous studies (Thompson and Hung 2002; Kraakman 2004; Che Haat, Mahenthiran et al. 2005; Fasterling 2006) suggested that corporate governance indicators were limited in their ability to measure and report governance practices and unreliable as indicators of efficient or effective performance in companies.

The present rule based governance system was seriously limited since the accuracy and reliability of corporate governance reporting was not being address and it has created an era of corporate conformance of ticking boxes, running through the drill and complying with all the codes (Le Pla 2005; Grimaud 2006; Rao 2007). The practice of ticking off boxes for compliance may and can only lead to a false sense of security that the right judgements and right actions were being taken.

The auditing model which agency theory provides only centres on the verification of financial reports by the auditor to confirm of the reliability of the financial information, thus other information that the board of directors and management (agent) of the firm provides/disclosed to the shareholders / owners in the annual report was absence of verification. These incentives arose because the annual reports were seen as a communication medium between owners and management. Shareholders / owners rely on annual report in order to know what was happening in the company in which they invest. As the board of directors were responsible to deliver sufficient information to shareholders and were entrusted by the owners to control the company, it would be meaningful to introduce their behaviour within the theory of agency in verifying the accuracy and reliability of information in the annual reports hence reflect the actual corporate governance practices in firm.

This argument can be re-stated in hypothesis 1.

Hypothesis 1 (H_1): That the level of consistency between corporate governance perception and corporate governance reporting practices will be positively related to the integrity value.

4.4.3 Relationship between corporate integrity and corporate performance.

There was no unified theory linking integrity and performance. Even in corporate governance research, the lack of this theory has resulted in studies focused on the relationship between a particular aspect of governance and a chosen measure of performance. Faced with this lack of theory, the argument can be re-stated in hypothesis 2.

Hypothesis 2(H_2): That there will be a positive relationship between the integrity value of a company and corporate performance.

4.5 Summary

This chapter discussed the study's theoretical framework. Agency theory was the theory underlying the study framework. This theory stimulated the establishment of non-legislative norms such as corporate governance codes (Fasterling 2006) including the Malaysian code on corporate governance; the present study drew on various worldwide studies on corporate governance described in chapter 2 to identify the study variables. The definition of the study variables were based on the principles found in best practice guides and world best practice governance and integrity.

The next chapter will present the study research design and methodology.

CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

5.1 Chapter Description

This chapter describes the methodology used to collect and analyse the research data. It contains the justification for the type of methodology chosen. The chapter is organised into two major sections. Section 1 sets out the research paradigm and research design issues which includes type of study and unit of analysis. Section 2 describes the research method issues, including study sample, survey tool, data collection procedures for stage one, two and three and method of data analysis.

The aim of the research was to examine the integrity value of the Malaysian government link companies using corporate governance indicators. The selected methodology of the study was consistent with this aim in that it follows a post positivist research paradigm incorporating both qualitative and quantitative research methods to support the research objectives flowing from the overall aim.

5.2 Research Paradigm

Any research is guided by a set of beliefs and feelings or paradigms about the world and how it should be understood and studied (Denzin and Lincoln 2000). This study uses a methodology aligned with a post positivist research paradigm in that objectivity, rigor and logical reasoning were key criteria in examining the research problems (Hussey and Hussey 1997). In this tradition, it was argued that although reality was there to be studied, captured and understood, it can never be fully apprehended; only approximated. Positivists aim to test a theory or describe an experience “through observation and measurement in order to predict and control forces that surround us" (O'Leary 2004). Moreover, they rely on multiple methods as a way of capturing as much of reality as possible, while placing emphasis on the discovery and verification of theories (Denzin and Lincoln 2000). Historically, a positivism paradigm has underpinned the techniques used by most corporate governance researchers.

Based on this paradigm, the study started with a review of literature to establish the theory and to construct testable hypotheses. Then, it took the form of a triangulation study where both qualitative and quantitative data sources were used. Denzin (as quoted in Hussey and Hussey 1997, p.74) defines triangulation as "*the combination of methodologies in the study of the same phenomena".* In other words, both qualitative and quantitative methods were concerned with aspects of issues that were important in understanding and analysing the individual's point of view. While qualitative research, arguably, gets closer to the respondents' perspective with detailed interviews, quantitative research relies on more remote, inferential and statistical analysis methods and materials supported by objective evaluations. This view was shared by Frankel and Devers (2000) who describe qualitative research as primarily inductive in that the researcher's task consists of describing and understanding people and groups' particular situations, experiences, and meanings before developing and or testing more general theories and explanations. In contrast, quantitative research is primarily deductive, drawing heavily on existing theoretical and substantive prior knowledge to conceptualise specific situations, in order to predict and explain phenomena (Frankel and Devers 2000).

There was an ongoing debate on the most appropriate approach to assessing and analysing corporate governance practices. Horwath (2002) said that reviewing corporate annual reports has become one of the commonly used techniques to analyse corporate governance practices. Though such a technique was non-comprehensive in nature, the analysis could provide, to a certain extent, the relevant indicators of corporate governance actual practices. A Singaporean corporate governance study (Thompson and Hung 2002) concluded that in their sample, a less profitable organization seemed to report more on their corporate governance conformance compared to their more profitable counterparts. As such, the results must be treated with caution.

As noted in chapter 2, the occurrences of corporate debacles worldwide and locally accentuate criticism of the worth of corporate governance practices. Following on from this, it was only natural that the question of whether the method of analysing and measuring corporate governance practices from information reported in the annual report was indeed of value, and has achieved what it was supposed to achieve, keep resurfacing. Judging from the Enron case and many more, the methodology to analyse and measure company corporate governance practices, still remains an issue worthy of investigation.

The preceding paragraph represents a justification of the use of qualitative data in research but also an endorsement of the application of both qualitative and quantitative analysis in order to achieve the objectivity, rigor and logical reasoning in examining research problems. This study adopts the balanced approach of using both qualitative and quantitative analysis to deal with the research problem.

5.3 Research Design

A research design is a basic plan that guides the data collection and analysis phases of the research project (Kinnear and Taylor 1996). It provides a framework that specifies the type of information to be collected, its sources and the collection procedure. This study used the research design model provided by Cavana, Delahaye and Sekaran (2001) described as follows.

5.3.1 Type of study

The study was exploratory in nature and intended to develop a corporate integrity assessment instrument using corporate governance indicators of Malaysian government link companies. The goal of the study was to identify and address the issues in analysing and measuring corporate governance practices among Government link companies, identify which corporate governance indicators can be used to model and assess corporate integrity and finally determine the relationship between corporate integrity and corporate performance.

The research used a mixed methods approach. There were three main components: a semi-structured interview, a survey questionnaire and content analysis of data collated from annual reports. The use of more than one research method in investigating the research question was to enhance confidence in the ensuing findings (Bryman 2004). It is an adaptation of the argument by Webb et al. (1966) that confidence in the findings deriving from a study using a quantitative research strategy can be enhanced by using more than one way of measuring a concept.

The research approach adopted in the study triangulates findings in order that it may be mutually corroborated to meet the overall study objectives (Bryman 2008). Bryman further explained that the idea of triangulation was very much associated with measurement practices in social and behavioural research. The form of triangulation approach adopted for this research was the methodological triangulation, which refers to the use of more than one method for gathering data (Denzin 1970). The approach will map out, and explain more fully, the richness and complexity of human behaviour by studying it from more than one standpoint (Cohen & Manion 1986). It will give a more detailed and balanced picture of the situation.

5.3.2 Study setting

This study was a field study as factors were examined in the natural environment. There was minimal researcher interference.

5.3.3 Unit of analysis

The unit of analysis for this project was Malaysian government link companies. Data for analysis was collected by semi-structured interviews, survey questionnaire and content analysis of annual reports. A detailed discussion of these tools was set out below.

5.3.4 Time horizon

The data collection was conducted between 15th of September 2008 to 30th of June 2009. The data from the semi-structured interviews was collected between 15th of September 2008 to 31st of January 2009. The data from the survey questionnaire was collected between 3rd of February 2009 to 20th of April 2009. The data from the content analysis of annual report was collected between 31st of March 2009 to 30th of June 2009.

5.4 Research Method

The first step was a literature search using Academic Search Premier, Blackwell Synergy, Business Search complete, Emerald Full text, Expanded Academic ASAP, available on university library's website. This literature search informed the development of the conceptual framework.

In addition, various websites relevant to the topic of research were also referred to for publications. The sites searched included those of the Bursa Malaysia, Security Commission, Transformation Office, the Malaysian Institute of Integrity, the Ministry of Finance Malaysia, the Malaysian Institute of Corporate Governance, the Minority Shareholder Watchdog Group, the Government link companies and the various agencies of Malaysian public listed companies.

In order to obtain detailed information about corporate governance practice, corporate integrity and corporate performance, data were collected in three stages.

The first stage took the form of a series of semi-structured interviews with the industry practitioners (**Group One – Practitioner**), and corporate governance expert panels (**Group Two - Corporate Governance Expert**). The interview exercise was conducted in English. The findings reflected the current practice of corporate governance, identification of issues related to corporate governance reporting, recommendation to address the issues and the understanding of corporate integrity concept. Pre-testing and validation of the survey questionnaire were also conducted.

The second stage was the survey questionnaire. A total of three hundred and fifty questionnaires were distributed via mail to company boards of directors and company top management which were the managers responsible for the company corporate governance practices and the company's secretary in the government link companies across Malaysia. The focus for this stage was to identify which corporate governance indicators can be used to model and measure corporate integrity. The results also determined the importance of each indicator identified in modelling and assessing corporate integrity.

The third and final stage of the investigation was the content analysis of the Malaysian government link companies (GLCs) annual reports. The sample frame for the study was the thirty five government link companies listed in Kuala Lumpur stock exchange as of 30^{th} of June 2009. Specifically the findings focus on corporate governance reporting that was purely based on information divulged in the annual reports.

Both qualitative and quantitative research methodologies were used to collect information so that a better understanding of corporate governance practice and corporate integrity can be obtained, assessment and measurement of corporate integrity can be discovered, governance factors that can be used to assess and measure company corporate integrity can be identified and see whether there is a relationship between corporate integrity and company performance. Figure 5.1 below provide an overview of the study research design. These are described in detail below.

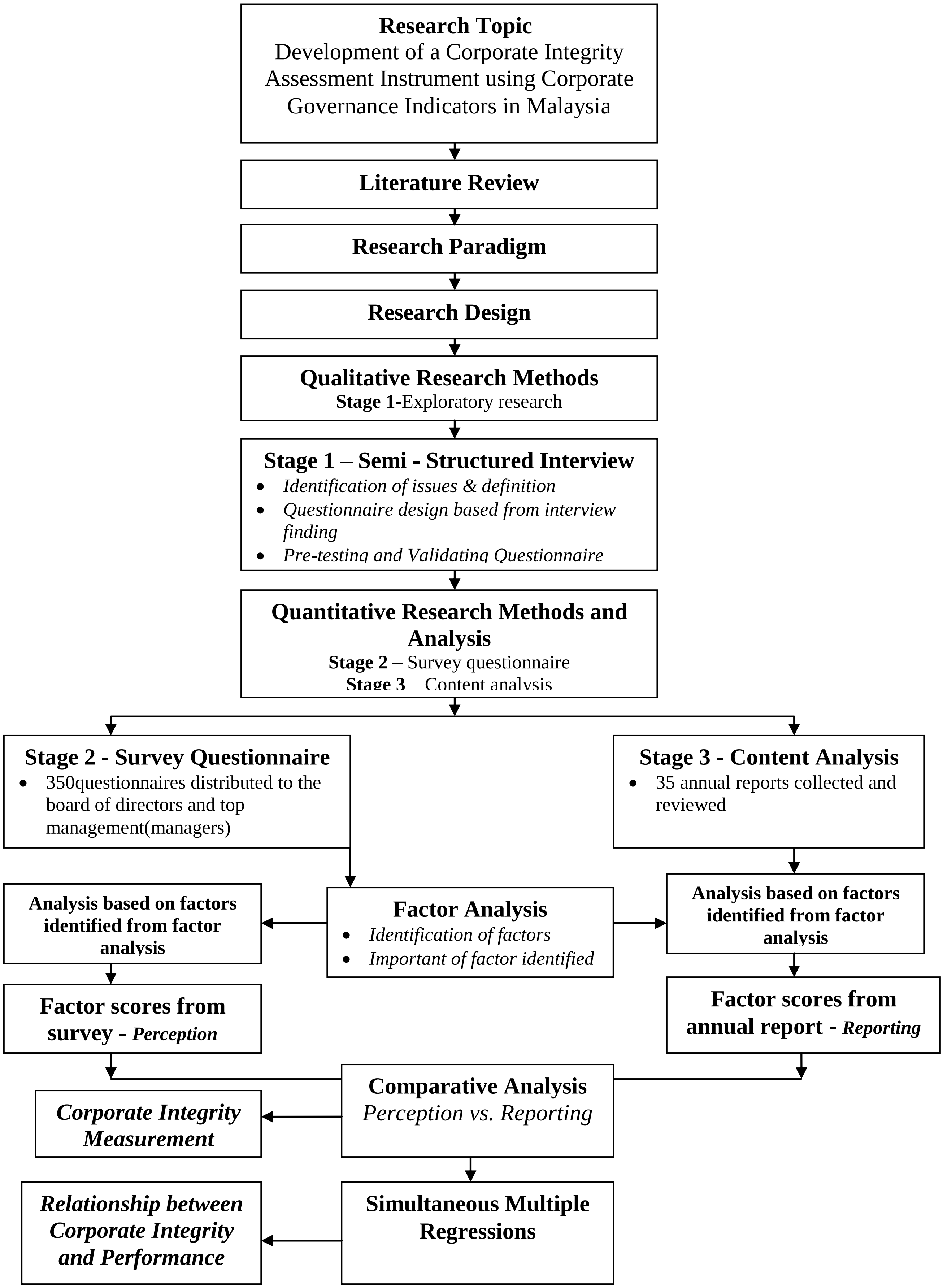


Figure 5.1: Research Design

5.5 Stage One – Mapping Corporate Governance Practices in Malaysian Government Link Companies

Stage one of the data collection focused on qualitative research methods and the preliminary data analysis which explored the current practices of corporate governance in Malaysian government link companies. The exploratory research findings included identification of issues in corporate governance practice and recommendations to address it, validation of the terminology and concepts, questionnaire design, pre-testing of the questionnaire and sampling issues. Stage one of data collection sought to address research question number one.

5.5.1 Sample

There were two different samples in the study: the first group of interviewees were the board of directors and managers; the second group were interviewed as experts.

The stage one sample was a purposive or judgement selected sample, comprising the industry practitioners which represent group one (**Group One – Practitioner**) , and an expert panel in corporate governance which represented group two (**Group Two - Corporate Governance Experts**). As the sample members had in depth knowledge of the subject, they provided rich information to the study (Babbie 2002) and therefore provide an in-depth gauge of the issues.

The industry practitioners comprised members of company boards of directors and their top management selected from the Malaysian government link companies. They were identified as the interviewees in the study because they were involved with the company corporate governance and were accountable for the company integrity.

The corporate governance expert panel were represented by the representative from the government agency which involved with corporate governance, corporate integrity, policy makers and academia. This was to ensure a comprehensive understanding of corporate integrity concept and the current practice of corporate governance in the government link companies (GLCs) can be obtained.

5.5.2 Interview procedures

Due to fact that personal introductions were often an integral part of culture in Asia (March 1997) and developing countries generally, it was expected that the level of interest would be low. For this reason, a large number of potential interviewees were required to begin. Potential interviewees were selected using online searches. The websites of the government agencies which related to corporate governance and integrity were identify and used. Among the government agencies website used were the Security Commission, Bursa Malaysia (formally known as Kuala Lumpur Stock Exchange), Federation of Public Listed Companies, Khazanah Nasional, Minority Shareholder Watchdog Group, Malaysian Institute of Corporate Governance and the Malaysian Institute of Integrity (www.sc.com.my, www.bursamalaysia.com, www.fplc.com.my, www.khazanah.com.my, www.mswg.org.my, www.micg.net, www.iim.com.my). Public listed company websites were also used. Traditional media such as company annual report were also used. The reason for using multiple sources was to ensure the sample would be the most representative of the population. Thus a ‘master list’ of potential interviewee was assembled.

After gathering the email addresses, the potential interviewees were emailed an invitation to participate in the study. They were given an overview of the study, the objective of the interview and invited to participate. A copy of a plain language statement for research participants was also attached (refer Appendix 5 –Information to participant)**.**

Following agreement to participate, and interview time was arranged and a confirmation phone calls followed by emails were sent to each participant. The confirmation email included an advance copy of the interview questions (refer Appendix 1 – Interview Schedule). Interview for Group One and Group Two informants were then arranged. At the commencement of each interview, a consent form outlining the research aim and interviewee giving their consent to participate in the study was presented to them. Only after the interviewee had read the consent form and given their consent did the interview begin. Interviewees were informed that they did not need to answer any question that felt uncomfortable with and that they could withdraw at any stage. Each interview was written up using the recording and from interview notes and other documents.

The interviews were conducted between 15th of September 2008 to 31st of January 2009, at offices located around Klang Valley Malaysia. The interviews were semi-structured to ensure a consistent yet flexible approach. Using the semi-structured interview technique, a set of questions were developed and followed generally during interviews. The interviewee was allowed to speak at length. Where necessary the researcher posited a question or probed to obtain more detailed responses. This method suited the environment and the dynamics of the interviews and the nature of the people involved in the study.

The interviews ranged in length from 30 minutes to up to 4 hours! The shortest interviews were with interviewee that had prepared answers for the interview questions before hand. The interviews that lasted more than a few hours typically involved discussions about other topics such as politics and economy. Only one interview lasted four hours. This was with a board member of a bank. In this case the interview was interspersed with many areas of discussion outside the scope of the study. In this case, the interview was conducted at a golf course over breakfast and lunch. The researcher was then careful not to occupy more of the interviewee's time than was necessary.

At each interview, permission to record responses was sought from participants. Transcripts of each individual interview were then produced. For the purposes of this study, each transcript was then grouped according to theme using Microsoft Excel software to allow thematic analysis.

5.5.3 Construction of the interview schedule

Each interview was comprised of 10 questions. There were two main themes being addressed:

- **Theme one**: Corporate governance practices in Malaysian GLCs.
- **Theme two**: Concept and understanding of corporate Integrity.

Question one to six addressed and answered theme one, questions seven to ten addressed and answer theme two.

Question one invited interviewees to identify any issues with regards to corporate governance reporting in Malaysia. This was to gauge with any issues related to corporate governance reporting practice among the Malaysian government link companies.

Question two sought to assess the interviewee's view about the actual corporate governance practices in the company. Their opinions on whether corporate governance practices go beyond the information that was published in corporate annual reports were also obtained. This was to gauge on the practices of corporate governance.

Question three asked the interviewees to comment on the accuracy of corporate governance reports. They were also asked to provide examples of information which was poorly reported. The interviewees were then asked if greater disclosure can address the issues. The purpose of this question was to identify the current practices in corporate governance disclosure and issues related to it.

Question four asked interviewees if they believe corporate governance can be an indicator of integrity. This question endeavours to see whether a governance indicator could be used to assess and model integrity.

Question five invited interviewees to reflect on the validation of corporate governance reporting in disclosing the integrity practices in the company. The interviewee's opinion can help in seeking approach and method in assessing actual corporate governance practices which would result with company having integrity value.

Question six asked interviewees to identify which corporate governance issues were not addressed by regulations. The response given may help regulators in improving corporate governance practices.

Question seven asked interviewees to define integrity and what it means in a business context. The definition assists in providing a clearer understanding about corporate integrity.

Question eight sought to assess interviewee's opinion on the importance of integrity in a company. Opinions gathered from the interview clarify the importance of integrity for company.

Question nine asked interviewees about the existence and practice of integrity system in company. The interview exercise helps to gauge the existence and practice of integrity system in a company.

Question ten invited interviewees to detail their experience in any issues or challenges in maintaining integrity. They were also asked to provide any suggestions on how to instil integrity value in a company. Information gathered from this question can provide an in-depth understanding about integrity challenges and in the same time knows how to address this challenge based on suggestions given by interviewees.

Table 5.1 provides summary of the interview questions and its objectives. Direct quotes were used to support the narrative throughout this paper.

Table 5.1: Preliminary stage- Interview questions and objectives

Interview objective	Questions
Theme one: ***Corporate governance practices in Malaysian GLCs***	
Gauge corporate governance issues	***Question 1*** Are there any issues with corporate governance reporting in Malaysia? (**Yes / No**) What are the issues with regards to corporate governance reporting in Malaysia?
Gauge corporate governance practices	***Question 2*** What actual corporate governance practices are in place in your organization? Would you think corporate governance practice go beyond the information's that are published in corporate annual reports? (**Yes / No**)
Gauge corporate governance disclosure	***Question 3*** How accurate are reports of corporate governance? (**Very accurate / accurate / inaccurate**) What issues are poorly reported? Can it be solved through greater disclosure? (**Yes / No**)
Ask for reflections on whether corporate governance can be an indicator to integrity	***Question 4*** Do you think that corporate governance reporting (disclosure) can be a reliable indicator of the quality / integrity of company management? (**Yes / No**) What is your opinion regarding this matter? Do you think that corporate governance adds to integrity in business? Does it help in restoring the public faith in business integrity? (**Yes / No**) Does it help your business's reputation

	with consumers? (**Yes / No**)
Ask for reflection about corporate governance validation	***Question 5*** Do you think external auditing of corporate governance reporting will disclose the integrity practices in a corporation?
Gather information about corporate governance issues which are not address by regulations	***Question 6*** Are there any other issues in regard to corporate integrity which are not being addressed by corporate governance? (**Yes / No**)
Theme two: ***Concept and understanding of corporate integrity*** *Gauge the definition of integrity in general and in business context*	***Question 7*** Define integrity? What does the word integrity means in business context?
Ask for reflection on the importance of integrity	***Question 8*** Do you think business leaders in Malaysia think that integrity is important? (**Yes / No**) Why? Is corporate integrity is an important issue for listed companies? (**Yes / No**) Of the top 10 issues that are important to your company, where would you place corporate integrity? How important do you think integrity is to other companies in your industry? (**Very important / important / neither important or unimportant / very unimportant**)
Gauge the existence and practice of integrity system	***Question 9*** Does your company currently have any “integrity system” in place? Does your company have a code of ethics/conduct? (**Yes / No**) Do you collect data about your company ethics? (**Yes / No**) Do you have a whistle blower policy? (**Yes / No**) To whom does the whistle blower report to?

Ask for reflection on issues and challenges of integrity	***Question 10*** What are the 5 major issues/challenges faced by your company in maintaining integrity? What are the factors/reasons that contribute to the issues/challenges mentioned earlier? Are there any other suggestions on how to instil integrity value in a corporation?

Table 5.1 shows the interview questions and objectives.

5.5.4 Ethical considerations

Any investigation with humans was bound to raise ethical issues and concerns, as they were inextricably entwined (Johanson 2002; Ezzy 2002). This can be said to be particularly true when it concerned with the actual practice of corporate governance and issues related to it in a public listed company. In this study, some ethical issues did arise. The case of one interviewee from the expert group, proved to be an interesting case of ethics in field research. Since the interviewee represented a government agency which is responsible for corporate governance and involved with making corporate integrity policy, he was not confident that the researcher could conduct such a study in Malaysia. The reason for this was that practitioners believed that practitioners who were part of the study sample would be reluctant to disclose their company corporate governance and integrity practices. In the past their agency failed to get participation from the practitioners.

The researcher dealt with this issue by getting another government agency that is also involved and responsible with corporate governance to support the study. They help by introducing potential participant that can participate in the study.

Other ethical issues such as confidentiality were overcome by providing the participants with a copy of the consent form that stated all answers would be confidential and reporting would be carried out using pseudonyms. Also, the participants were advised that they did not have to answer any questions and could withdraw at any time if they wished.

Ethical conduct in research based on Social Sciences and Humanities Research Council (SSHRC) was strictly adhered to in the process of gathering data for the study.

Kervin (1992) proposed a checklist for ethical research outlining the need to take action to avoid any harm to the participants or others directly or indirectly and to avoid violating accepted research practice and also community standards in conducting research.

The following action was taken by the researcher to ensure that the study complies with the accepted ethical guidelines:

- Approval from the University Ethics Committee to conduct both the preliminary research and the main survey involving humans. This entailed rationalising the processes involved and the submission of the instruments used in these studies for scrutiny by the University Ethics Committee;
- Detailed instructions in the instruments used confirming the process in place to ensure participants' confidentiality and anonymity;

- Cover letter inviting respondents to participate in the research study, *Information to Participants* involved in research and *Consent form* for participants involved in research were provided to all participants (Appendix 5);
- Obtaining written consent from the participants involved in the preliminary study and main survey;
- Option of contacting the Chair of the University Ethics Committee to obtain any clarification on the interview and survey were given to all potential respondents. All contact details were given in the covering letter.

5.5.5 Justification of the use of a semi - structured interview schedule

The semi - structured interview was one of a variety of forms of research interview and commonly employed in survey research (Bryman 2008). The reason why it was typically preferred was that it promotes standardization of both questions asked and answers recorded. The interview ensures that interviewees' replies can be aggregated. The approach was intended to maximize the reliability and validity of measurement of key concepts. The aim of the exercise was to answer the specified set of research questions being investigated.

The strength of this research method was in its ability to provide complex textual descriptions of how people experience a given research issue. It provides a "human" side of the issue and can help to interpret and have better understanding of the reality of the situation. The aim of the semi-structured interview was to seek understanding about current practices of corporate governance reporting and understanding of the corporate integrity concept among Malaysian government link companies. The semi-structured interviews with the industry practitioners and the corporate governance expert panels conducted gathered information which sought the validation of terminology, concepts and issues that would be later used in the designing the survey questionnaire. The exercise will ensure a more appropriate and sensitive survey questionnaire can be established.

The interviews were conducted between 15^{th} of September 2008 to 31^{st} of January 2009, at offices located around Klang Valley Malaysia. Interviews were recorded and then transcribed. All data was studied and grouped according to themes. This aggregated data maintained confidentiality and was used to assist in the interpretation of responses.

5.5.6 Interview analysis method

Qualitative data were analysed using Microsoft Excel software. This permitted the responses from the interview to be grouped according to themes which allow thematic analysis. Data was also standardised through the use of matrices to enable comparison of responses. This analysis was useful in enhancing the generalizability of results and also deepening the understanding and explanation of results (Miles and Huberman 1994).

5.5.7 Reliability

To ensure reliability, the interview protocol was strictly adhered to. All interviews were digitally recorded. The data and name of interviewees were recorded and a numbering system was used to catalogue each interview.

A researcher's diary was also maintained to record interview summaries as well as noting general observations.

5.6 Stage Two - Corporate Integrity Indicators and Measurement

The stage one study was used to inform the development of the survey questionnaire. This questionnaire was then distributed via mail to company boards of directors and company top management in the government link companies across Malaysia. Findings from the survey questions identified which corporate governance indicators can be used to model and assess integrity and determine their importance. Stage two of data collection addressed research question number two and three.

5.6.1 Survey population

The populations for the study comprised of members of boards of directors and top management who were the managers responsible for the company's corporate governance, and the company secretaries of the Malaysian government link companies.

These companies were identified as the research sample since they account for approximately RM 169 billion (AUD$57 billion) or 35% of the market capitalization of the Kuala Lumpur Composite Index (KLCI) and account for an estimated 250,000 of the national workforce (Putrajaya Committee on GLC High Performance 2006). Part of the National Integrity Plan agenda was to transform the government link companies into high performing entities (Putrajaya Committee on GLC High Performance 2006). In 2004, the Malaysian government launched the government link company Transformation Programme with the dual aims of enhancing economic performance and accelerating the country's social and economic development. Since being introduced in 2004, the government link company Transformation Programme has started to show the tangible results.

This result and assessment of the government link companies integrity practices and performance will greatly impact the productivity and wellbeing of almost all companies and almost all Malaysians across the country (Putrajaya Committee on GLC High Performance 2006). A complete list of companies in this study was provided in Appendix 2.

At the time of commencing data collection (February 2009), there were thirty five government link companies listed in Bursa Malaysia Berhad (formerly known as Kuala Lumpur stock exchange).

5.6.2 Sample selection

The procedure in the selection of the stage two samples was a multi-stage cluster sampling. With cluster sampling, the first stage of the sampling procedure was to identify the Malaysian government link companies listed in Bursa Malaysia Berhad (formerly known as Kuala Lumpur stock exchange) as of 31 of December 2008. Thirty five government link companies were identified which represent thirty five clusters. Potential respondents from each company were then identified using a purposive judgement sample which focused on the respondent that was responsible for corporate governance reporting and practices in their company. Precautions were taken to choose samples that were experts and had in-depth knowledge of corporate governance reporting and practices to ensure that their answers provided evidence of the actual situation. Board of directors, managers and company's secretary were identified as the best respondents that can provide needed information for stage two of data collection.

The list of each company's board of directors was obtained from the Bursa Malaysia data base. It provides the company name, board of directors name, mail and email contact address. This list was cross referenced against the list in the company website to ensure these people were the current board members. Company's managers and company's secretary were identified based on information gathered from company annual report and company website. The total sample used in this study was adjusted in terms of equal sample sizes of respondents from each company or cluster. A standard of ten representatives from each company were invited to participate in the survey exercise. This improves the statistical significance and validity of the sample (Hair, Anderson et al. 1995). A total of three hundred and fifty potential respondents were identified for stage two data collection.

5.6.3 Sampling error

It is very unlikely that the sample will perfectly represent the population from which the sample is being drawn. The difference between the sample and the population, which is due to sampling, is referred to as sampling error. Sampling error is the expected variation in any estimated parameter (intercept or regression coefficient) that is due to the use of a sample rather than the population (Hair, Black et al. 2006). Although chance alone can increase the sampling error, there are two other issues that have to be considered: sample selection; and the non-response problem. The sample selection has been addressed in sub-section 5.6.2, while the non-response problem is discussed below.

5.6.3.1 Non-response bias

The other important issue of sampling error is the problem of non-response bias. This occurs since most of the sample surveys attract a certain amount of non-response. In this case, the researcher should consider and pay attention to this problem, because a well produced sample can be jeopardised by the non-response bias (Bryman and Cramer 1990). The problem is that respondents and non-respondents may differ in certain aspects and, hence, the respondents may not be representative of the population.

In this aspect, an independent-samples t-test was conducted to address the non-response bias problem in the present study. A t-test was used to determine whether there was a significant difference between two sets of scores (Coakes, Steed et al. 2008). In this case, the data were separated into: early respondents; and late respondents, since non respondents tend to be similar to late respondents in responding to surveys (Miller and Smith 1983). The t-test result was presented in Appendix 3.

From Appendix 3, it can be seen that the two-tail significance of all of the main variables was not significant at $p < 0.05$. This means that there were no differences between the early responses and late responses. In other words, non-response bias can be ignored.

5.6.4 Data quality

Data quality is very important in conducting any research. Poor data quality can have significant effects on the relationships proposed in the research framework or model.

There are two major sources of error in a survey study, namely, measurement error and sampling error. Measurement error is discussed in the section below, while sampling error has been discussed in sub-section 5.6.3.

5.6.4.1 Measurement error

Measurement error is defined as ‘inaccuracies of measuring the “true” variable values due to the fallibility of the measurement instrument (i.e., inappropriate response scales), data entry errors, or respondents errors’ (Hair, Black et al. 2006). Therefore, the observed value obtained consists of the “true” value and the measurement error. When the observed value is used to compute correlations or means, the “true” effect is partially covered by the measurement error. As a result, the correlations become weaker and the means less precise. There are two important characteristics that should be addressed relating to measurement error: (i) validity; and (ii) reliability.

Validity, or construct validity, is the extent to which the constructs of theoretical interest are successfully operationalised in the research in terms of how it incorporates both the extent to which the constructs are measured reliably and whether the measure used captured the construct of interest (Abernethy, Chua et al. 1999). A thorough understanding of what is to be measured and then deciding an appropriate and precise instrument to measure is the most important way to ensure validity (Hair, Black et al. 2006).

Reliability, on the other hand, is the degree to which the observed variable measures the “true” value. The more reliable measure will show greater consistency than a less reliable measure when the measure is used repeatedly (Hair, Black et al. 2006).

Therefore, to increase the validity and reliability, and thus minimise the measurement error, certain procedures (e.g., development and administrative of the questionnaires) should be considered by the researcher.

Measurement error can result from both poor wording of the question and a faulty questionnaire construction (Dillman 2007). Therefore, the development of the questionnaire should be considered carefully. In the present study, the development of the questionnaire followed the procedures suggested by Dillman (2007) and Andrews (1984). When available, prior research instruments have been used in this study, with some appropriate modification, to fit the research objective. The use of prior research instruments can increase the reliability of the data (Hair, Black et al. 2006). The development of the questionnaire is discussed in sub-section 5.6.6.

5.6.5 Justification of the use of a survey questionnaire

In social sciences, the survey method is used widely to examine empirically the characteristics and interrelation of sociological and psychological variables (Roberts 1999; Nazari, Kline et al. 2006). As Nazari et al. (2006) state, there are several underlying assumptions in survey research using *self-report* of attitudes, values, beliefs, opinions and/or intentions. These self-report assumptions, discussed below, reflect the present research's central objective; which is to examine the perception and opinion of board of directors and top management on their company corporate governance practices.

Firstly, *the respondents are the most reliable source for certain types of information* (Nazari, Kline et al. 2006). In the measurement and assessment of corporate governance practice, the approach or method in measuring and assessing the actual practice is crucial. The board of director, managers and company's secretary are the most reliable source of information since they are responsible and involved in the corporate governance process.

Secondly, *those subjective perceptions actually matter*. One can argue that perceptions may not be real; however, perceptions of reality can be more powerful than reality itself since very often people act on their perceptions (Nazari, Kline et al. 2006).

Thirdly, *perceptions can be demonstrated to be linked to outcomes of interest to organizations* (Nazari, Kline et al. 2006). In other words, perceptions influence the behaviours that have real consequences for organizations. The common measure bias found in previous studies which uses only information reported in the annual report as a measurement for corporate governance practices may only lead to a false sense of security that the right judgements and the right actions were being made and taken. Perceptions from the board of directors and top management can provide an insight view of the actual corporate governance practices in the company. Given the objective in the second stage of the study, as well as considering the above assumptions of the self-report survey, a survey method is appropriate.

5.6.6 The questionnaire

One set of questions were developed. The questionnaire included questions relating to all variables in the present research model and some general questions such as the demographic details of the managers. The development of the questionnaire followed the guidelines of Dillman (2007).

5.6.6.1 Development of the questionnaire

There were three steps taken during the questionnaire development process. Firstly, two main sources of information were used to construct the questions in the questionnaire. The first source was obtained from the *Malaysian Code on Corporate Governance* (MCCG) itself. The Code divides corporate governance information into two main categories: *Principles of Corporate Governance* were those items specifically identified by the Malaysian Code on Corporate Governance which set out broad principles of good corporate governance, and *Best Practices in Corporate Governance* were value-added items generally proposed by other best practices worldwide which identified a set of guidelines or practices intended to assist companies in designing their approach to corporate governance. The second source of corporate governance information was from various worldwide studies on corporate governance. The development of questions for the questionnaire was based upon factors identified in national and international best practice guidelines and other research studies.

Second, discussions were held with fellow academics in the corporate governance research program. These discussions focussed on both the reliability and validity of the proposed items in the instrument.

Third, the drafted instrument was given to the interviewees during the semi-structured interviews with the industry practitioners and the corporate governance expert panels.

It focussed on the wording and understands ability of the questions and the covering letter, the setting out of the questionnaire, and the time estimates to complete the answers. Some minor changes to the questionnaire were made as a result from the feedback given by the interviewee. The exercise will ensure a more appropriate and sensitive survey questionnaire can be established.

The questionnaire consisted of eight parts (see Appendix 4).

Part A of the questionnaire related to the role of the Board of Directors (BOD). It covers five important aspects namely Board Leadership & Control, Board Balance, Board's Right to Information, Appointment of Directors and Board Re-election**.** Specifically, thirty six questions asked under this part were on:

- Director's Roles & responsibilities
- Director's selection & appointment
- Meeting & information
- Committee function, minority shareholder & independency
- Vision
- Operational procedure
- Professional advice & performance indicator
- Director's succession plan, education & evaluation
- Director's effectiveness & competencies

Part B of the questionnaire related to the Directors' Remuneration. It includes the Level & Make-up of Remuneration and Procedure. Specifically, eight questions asked under part B were on:

- Directors' remuneration attractive & transparent procedure
- Directors' remuneration by performance driven & formal procedure
- Reward criteria

Part C of the questionnaire asked about the aspects of communication that exist between companies and investors. It aims to examine the company's relationship with its investors. Specifically, the eighteen questions asked focus on:

- Dividend policy & related party transaction
- Annual General Meeting (AGM) & annual report
- Extraordinary General Meeting (EGM) & announcement
- Annual General Meeting (AGM) function

Part D of the questionnaire related to the company's Board of Directors (BOD) responsibility and accountability towards the firm shareholder. It includes the financial reporting, internal control and relationship with auditors. Specifically the seventeen statements asked under this part were:

- Internal control & information
- Report release & auditing
- Audit committee
- Board, audit committee & external auditor

Part E of the questionnaire related to the Board of Directors (BOD) responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the Board must ensure the company has a policy implicating such responsibilities. Specifically the seven questions asked were on:

- Code of ethics & Whistle blower policy

Part F of the questionnaire related to how the Board of Directors (BOD) recognizes intellectual capital as one of the most important assets in the organization. Specifically the nine questions asked were related to:

- Intellectual Capital recognition
- Intellectual Capital appreciation & implementation

Part G of the questionnaire related to the company Board of Directors (BOD) responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be "transparent" in disclosing pertinent information to the shareholder. Specifically, all the questions asked were related to:

- Disclosure on auditing, audited report & board responsibility
- Disclosure on internal control, Annual General Meeting (AGM) notice & lead control
- Disclosure on board profile, third party transaction & remuneration committee
- Disclosure on board remuneration & benefit

Part eight of the questionnaire related to general background information about the respondent and the company for which they worked. It comprised of eight questions including respondent demographic information on their gender, age, education level and length of the respondent's employment. Information about the company asked in this part was on the industry sector and company turnover.

5.6.6.2 Rating scale

A Likert Scale (figure 5.2) was used as the basis for measuring responses to the closed questions in the questionnaire. This scale examined how strongly subjects agreed or disagreed with the statements on a five-point scale. A Likert Scale has an odd total of response points and the midpoint was neutral (Cavana, Delahaye et al. 2001). The study used a 5-point Likert Scale to measure the factor; a "5-point" score denotes the maximum level of agreement and acceptance of the gauged factor for corporate governance practices, a "3-point" score denotes neutral whilst a "1-point" score represents the maximum level of disagreement and no compliance of the gauged factor for corporate governance practice.

The following anchor points were used in this study:

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
5	4	3	2	1	0

Figure 5.2: Study Likert Scale

5.6.7 Data collection procedure

The data source for stage two was a formal survey questionnaire. A total of three hundred and fifty questionnaires were distributed via mail to company board of directors and company top management in Government link companies across Malaysia.

The mail explained the details of the study and requested the respondent at their earliest convenience to return the completed questionnaire and the consent form in the reply paid envelope provided. Reminder mails were sent to survey invitees after three weeks. Several further mails were sent to invitees who had not responded, or only partially responded. The follow up action by the researcher was limited to monitoring of the administration of the survey through frequent contact with the respective companies. It was not possible for the researcher to involve the companies again in the survey process to follow up on non-respondents.

5.6.8 Confidentiality

Ensuring the confidentiality of the data was important not only to retain privacy of the respondents, but to ensure that the respondents provided accurate and honest responses to the questions.

Prior to conducting the study, the ethics approval application was submitted to Victoria University's Human Research Ethics Committee (HREC). The application addressed issues of privacy and confidentiality, management of potential risk and the information to be provided to participants. Data were aggregated and no individual responses were reported, ensuring confidentiality.

The questionnaire was confidential. The views of individual respondents were aggregated and no individual responses identified.

5.6.9 Data analysis methods

Eight specific sets of data were collected from the sample population:

1. Perceptions and opinions about the Board of Directors (BOD) roles in Malaysian government link companies. It covers both basic principles and best practices of corporate governance based on the recommendations of the Malaysian Code on Corporate Governance (Part A of the survey).
2. Perceptions and opinions about Directors' Remuneration which refers to basic principles of corporate governance recommended by the Malaysian Code on Corporate Governance (Part B of the survey).
3. Perceptions and opinions about dialogue between companies and investors and the relationship between the board and shareholders at the annual general meeting (AGM). The questionnaire was based on basic principles and best practices of the Malaysian Code on Corporate Governance (Part C of the survey).
4. Perceptions and opinions on board responsibility and accountability towards a firm's shareholders. Both basic principles and best practices recommended by the Malaysian Code on Corporate Governance were referred to in formulating the questions under this part (Part D of the survey).
5. Perceptions and opinions relates to the board's responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities in fulfilling their obligations. The world best practice was referred to in formulating question under this part (Part E of the survey).

6. Perceptions and opinions relates to how the board recognizes intellectual capital as one of the most important assets in an organization. This is based from world best practice (Part F of the survey).
7. Perceptions and opinions about the company Board of Directors (BOD) responsibility in disclosing pertinent information to the shareholder. The Board of Directors are responsible in ensuring the management team disclose it to the public (Part G of the survey).
8. General information, including respondent and company demographics (Part 8 of the survey).

The statistical package for the Social Science (SPSS) was used to record and analyse data. Descriptive statistical analysis and cross-tabulations were performed for questions in Part 8.

Multivariate analyses

Likert-scaled variables were subjected to factor analysis. The principle component method was adopted to extract the factors which can be used to model and measure corporate integrity. This method was the most frequently used approach and transforms correlated variables into a new set of principal components not correlated to each other (Cooper and Schindler 2003). The linear combination of these components, called factors, then account for the variance in the data. Extraction was followed with Varimax rotation method with Keiser normalization.

This approach avoids potential problems with 'factor indeterminacy' associated with factor analysis (Stevens 1996). An empirical summary of a data set can be obtained from this method (Tabachnick and Fidell 2001). Two statistical measures were used to assess the factorability of the data: Bartlett's test of sphericity (Bartlett 1954) and the Kaiser – Meyer- Olkin (KMO) measure of sampling adequacy (Kaiser 1970; Kaiser 1974).

In determining the number of factors that can be used to best represent the interrelations among the set of variables, an exploratory approach were adopted, where different numbers of factors were experimented with until a satisfactory solution was found, (Tabachnick and Fidell 2001). The techniques used to assist in the decision concerning the number of factors to retain in this study were Kaiser's criterion or the eigenvalue rule and Catell's scree test (Catell 1966).

Using the eigenvalue rule, only factors with an eigenvalue of 1.0 or more were retained for further investigation. The eigenvalue of a factor represents the amount of the total variance explained by that factor. Catell's scree test approach involves plotting each of the eigenvalues of the factors and inspecting the plot to find a point at which the shape of the curve changes direction and becomes horizontal. Catell recommends retaining all factors above the break in the plot, as these factors contribute the most to the explanation of the variance in the data set. The results from the analysis identified factors retained for the study and determine the importance of each factor identified in modelling and assessing corporate integrity.

Descriptive statistics

Factors identified from the seven corporate governance indicators were referred to in presenting the survey findings. The perceptions and opinions from the company board of directors and top management regarding the corporate governance practices in the government link companies were measured using the 5-point Likert Scale. The frequency of the strongly agree ("5-point" score) and agree ("4-point" score) were calculated and converted into percentage indicating the board and top management agreement with gauge factors. The score shows that the company complies and practices the factors based on the board and top management perceptions and opinions.

5.6.10 Reliability

Responses were tested for reliability using Cronbach's coefficient alpha. This is the most popular test of inter-item consistency reliability (Cavana, Delahaye et al. 2001). The Cronbach's alpha is a measure of the intercorrelations between the various indicators used to capture the underlying construct (Ghauri, Gronhaug et al. 1995). Inter-item consistency reliability is a test of the consistency of respondents' answers to all the items in a measure. To the degree that items are independent measures of the same concept, they will be correlated with one another (Cavana, Delahaye et al. 2001). The analysis confirms the factors reliability.

5.7 Stage Three - Corporate Integrity Measurement and Corporate Performance

Stage three of the investigation reviewed and analysed data collated from companies' annual reports. Corporate governance factors indentified from the multivariate analysis in stage two of the data collection was used to guide presentation of the findings. Findings from stage 3 of the study focused on assessing and measuring corporate integrity. The relationship between corporate integrity and corporate performance was also explored. Stage three of data collection sought to address research question number four and five: *What was the level of integrity in Malaysian government link companies (GLCs) and* w*hat was the relationship between integrity and performance.*

5.7.1 Study population

The population for the study were the annual reports of thirty five Malaysian government link companies' listed in Bursa Malaysia.

5.7.2 Sample selection

The final stage of investigation analysed the annual report of the Malaysian government link company's available as of 30 June 2009. Companies identified and used in the stage two data collection procedure were again used for this final stage of investigation.

The annual reports of these companies have either been obtained directly from the organizations concerned or from their respective websites via links from Bursa Malaysia. The sample companies have either 31 December or 31 March as their financial year ends. The study cut off date for the availability of the annual report is 30 June 2009. A total of thirty five annual reports were collected and analysed.

5.7.3 Content analysis

Content analysis is an approach to the analysis of documents and texts that seek to quantify content in terms of predetermined categories in a systematic and replicable manner (Bryman 2008). It is a very flexible method that can be applied to a variety of different media. Specifically the study focused on analysing corporate governance reporting that was based on information disclosed in the annual reports. Company annual reports available as of 30 June 2009 were collected. A total of thirty five annual reports were content analysed.

Corporate governance factors identified from the multivariate analysis in stage two data collection were used in the analysis. A score card with a check lists were used to score company reporting on their corporate governance practices. Seven corporate governance indicators were used to obtain the reporting scores (see Appendix 2). The check lists used in the reporting score card was the same check list used in the survey questionnaire. The following were the seven corporate governance indicators used in the score card.

Part A of the score card related to the role of the Board of Directors (BOD). It covered five important aspects namely Board Leadership & Control, Board Balance, Board's Right to Information, Appointment of Directors and Board Re-election**.**

Part B of the score card related to the Directors' Remuneration. It includes the Level and Make-up of Remuneration and Procedure.

Part C of the score card related to the aspects of communication that exist between companies and investors. It assessed a company's relationship with their investors.

Part D of the score card related to the company Board of Directors (BOD) responsibility and accountability towards the firm shareholder. It includes the financial reporting, internal control and relationship with auditors.

Part E of the score card related to the Board of Directors (BOD) responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the Board must ensure the company has a policy disclosing such responsibilities.

Part F of the score card related to how the Board of Directors (BOD) recognizes intellectual capital as one of the most important assets in the organization.

Part G of the score card related to the company Board of Directors (BOD) responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be "transparent" in disclosing pertinent information to the shareholder.

Performance indicators

The performance indicators were proxy measures based on Return on Capital Employed (ROC), Return on Asset (ROA), Return on Operating Cash Flow (CFA) and Tobin's Q. Return on capital employed (ROC) was calculated by dividing net profit before interest and tax with shareholders fund. For Return on asset (ROA), the formula used was net profit before interest and tax divided with total assets. Return on operating cash flow (CFA) was calculated by dividing operating cash flow and total assets. The last measurement used for performance was Tobin's Q which compares market value of assets with book value of assets. All of the information was drawn from the annual reports.

5.7.4 Reporting scale

A nominal Scale was used to measure corporate governance reporting: a "1-point" score denotes the company compliance and acceptance of the gauged factors for corporate governance reporting whilst a "0-point" score represented no compliance. The reporting score indicated the level of company reporting compliance and acceptance of the gauged factors. The following anchor points were used in this study.

	Compliance			
Corporate governance check list	**YES**	**NO**	**Remarks**	**% compliance**
	1	0		%

Figure 5.3: Study nominal scale

5.7.5 Data analysis methods

Seven specific sets of data were collected from the annual report:

1. Reporting and disclosure on the Board of Directors (BOD) roles in Malaysian government link companies. It covers both basic principles and best practices of corporate governance based on the recommendations of the Malaysian Code on Corporate Governance (Part A of the score card).
2. Reporting and disclosure on Directors' Remuneration which refers to basic principles of corporate governance recommended by Malaysian Code on Corporate Governance (Part B of the score card).
3. Reporting and disclosure on dialogue between companies and investors and the relationship between the board and shareholders at the annual general meeting (AGM). It was based on basic principles and best practices of the Malaysian Code on Corporate Governance (Part C of the score card).
4. Reporting and disclosure on board responsibility and accountability towards a firm's shareholders. Both basic principles and best practices recommended by the Malaysian Code on Corporate Governance were referred to in formulating the questions under this part (Part D of the score card).
5. Reporting and disclosure on board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities in fulfilling their obligations. The world best practice was referred to in formulating question under this part (Part E of the score card).
6. Reporting and disclosure on how the board recognizes intellectual capital as one of the most important assets in an organization. This was based on world best practice (Part F of the score card).

7. Reporting and disclosure on company Board of Directors (BOD) responsibility in disclosing pertinent information to the shareholder. The Board of Directors were responsible in ensuring the management team disclose it to the public (Part G of the score card).

The statistical package for the Social Science (SPSS) was used to record and analyse data.

Descriptive statistics

Factors identified from the seven corporate governance indicators were guided the presentation of the corporate governance reporting findings. The frequency of the compliance score were calculated and converted into percentages indicating the company reporting compliance and acceptance of the gauged factors.

Comparative analysis

The study investigated the consistency between corporate governance reporting and director and top management perceptions and opinions about their company corporate governance practices. In order to do this, corporate governance reporting of compliance was validated by benchmarking it against the boards of directors and top management's perceptions and opinions.

Corporate governance reporting uses the seven corporate governance indicators as the reporting checklist to assess company reporting practices. The same checklist was used in the survey questionnaire to assess board perception and opinion about company corporate governance practices. The frequency of the reporting scores was benchmarked against the survey scores. The benchmarking result assessed and measured the company integrity value. Variances calculated indicated the discrepancy between corporate governance reporting and the corporate governance survey scores. A high variance computation meant a low integrity value.

Simultaneous multiple regression analysis

The last part of the study explored whether there was a relationship between company integrity and company performance for government link companies. A linear regression was used to explore this relationship. The findings were presented based on the factors indentified earlier. The factors scores were regressed against company performance. This analysis seeks to address the last research question: *What was the relationship between governance and performance?*

The analysis showed how well the governance factors were able to predict company performance. It provides information about the model as a whole and the relative contribution of each of the variables that make up the model. It also tells how much unique variance each of the independent variables (governance indicators) explains in the dependent variable (company performance), over and above the other independent variables included in the factor.

Correlations profiles

In order to determine the appropriate variables to be used in regression analysis, a correlation analysis between the independent variables (governance factors) with the dependent variable (company performance) was run. This was to check if the independent variables showed at least some relationship with the dependent variables, preferably above 0.3. The correlations between each of the independent variables (governance factors) were also check to ensure it is not too high. Tabachnick and Fidell (2001) suggest that the correlations should be 0.7 or less in order to retain variables in the model. A 'collinearity diagnostics' was also performed on the variables as part of multiple regression procedure and the value used was the tolerance value ($1-R^2$). The cut off point to determine the presence of multicollinearity was the tolerance value of less than .10. This analysis can identify problems with multicollinearity that may not be evident in the correlation matrix. The above analysis checked on assumptions for standard multiple regressions in order to ensure good multiple regression models were established for further analysis.

Model evaluation

Once the multiple regression models have been confirmed, evaluation of the model is conducted. The R Square value was used to show how much of the variance in the dependent variable (company performance) was explained by the model which includes the independent variables (governance factors). The statistical significance of the results also needs to be tested. This was assessed by testing the null hypothesis that multiple R in the population equals 0.

The model summary table reports the strength of the relationship between the model and the company performance. It shows the percentage of variance in the company performance being explained by the model. The results were also assessing for statistical significance. The above results only present the model's ability to explain any variation in the company performance, but would not identify which governance factors included in the model contributed to the prediction of company performance.

Next, each of the governance factors was evaluated in order to identify its unique contribution to the prediction of the company performance.

Independent variables evaluation

The evaluation of each independent variable (governance factors) tells which of the variables included in the model contributed to the prediction of the dependent variable (company performance). Beta values under standardised coefficients were used to evaluate each of the governance factors. The larger the Beta values the stronger the unique contribution to explaining the company performance, when the variance explained by all other factors in the model is controlled for. The governance factors were also checked for whether the factor was making a statistically significant unique contribution to the prediction of the company performance. The significance value used to determine the statistical significance was $p < .01$. If $p < .01$ then the factor was making a significant unique contribution to the prediction of the company performance and if the value was greater than .01, it can be concluded that the factor was not making a significant unique contribution to the prediction of the performance.

In summary, the coefficient table identified which governance factors included in the model contributed to the prediction of company performance. It also evaluated each of the governance factors unique contribution to the prediction of company performance.

5.8 Summary

In this chapter the steps undertaken to collect and analyse data for the study were described. The statistical analyses used in the research (and having only two hypotheses) were sufficient to answer the research questions and address the research objectives. **Stage One** of the data collection used qualitative content analysis. Statistical analyses were used in stages two and three.

The **second stage** of the data collection used Multivariate analyses (factor analysis) to determine the number of factors that best represent corporate governance indicators. The data were tested for reliability by using Cronbach's coefficient alpha. **Stage three** used descriptive statistics in indicating the company's reporting compliance and acceptance of the gauged factors.

Comparative analyses investigated the consistency between corporate governance reporting practices and corporate governance perceptions. Benchmarking analyses calculated the factor variances that assessed and measured company integrity value; simultaneous multiple regression analysis explored the relationship between company integrity and company performance and standardised coefficients confirmed their statistically significant unique contribution to the prediction of company performance.

Correlational analyses were also performed to determine the appropriate variables to be used in regression analysis. Once the multiple regression models were confirmed, model evaluation was conducted using R square value. The model summary reports the strength of the relationship between model and company performance.

The use of more than one research method in investigating the research question enhances the confidence in the ensuing findings (Bryman 2004). In the next chapter, the research results were presented.

CHAPTER 6: THE PRELIMINARY STUDY - MAPPING CORPORATE GOVERNANCE PRACTICES IN MALAYSIAN GOVERNMENT LINK COMPANIES

6.1 Chapter Description

Chapter six present the findings for the first stage of the investigation. It focuses on mapping corporate governance practices in Malaysian Government Link Companies (GLCs). Findings from the interviews were presented and discussed. The findings presented reflect the interviewees understanding of corporate integrity and issues related to corporate governance reporting among Malaysian GLCs. By undertaking this preliminary study a more appropriate and sensitive data collection instrument for the questionnaire survey was established.

The preliminary study took the form of a series of semi-structured interviews with the industry practitioners (**Group One – Practitioner**), and the corporate governance expert panels (**Group Two - Corporate Governance Expert**). The interview exercise was conducted in English. The structure and content of the questions used in the interviews sought to validate the terminology, concepts and issues that would be later used in the designing the survey questionnaire that was distributed to the company board of directors in Malaysian Government Link Companies (GLCs).

6.2 Response Rates for the Samples

This stage of the study involved interviews with the industry practitioners and the corporate governance expert panels. The industry practitioners were represented by the company boards of directors and company top management selected from the top hundred companies in Malaysia. They were identified as the interviewees in the study because they were involved with the company corporate governance and accountable for the company integrity.

The corporate governance experts were representatives from the government agencies which involved with corporate governance and corporate integrity, policy makers and academics. This was to ensure a comprehensive understanding of the corporate integrity concept and the current practice of corporate governance in the government link companies (GLCs) was obtained. A purposive or judgement sampling method was adopted.

Four out of ten people in Group One agreed to participate. Eight out of eleven persons in Group Two agreed to participate.

Table 6.1: Number of Personal Interviews with the Practitioners and the Corporate Governance Experts

Interview group	Number of interviewees	Percentage (%)
Group One – Practitioner	4	33.33
Group Two - Corporate Governance Expert	8	66.67
Total	**12**	**100**

Table 6.1 shows the number of personal interviews conducted with two groups, the practitioner and the corporate governance expert.

Group one was label the '**Practitioner group'**. The sample consisted of two men and two women. Group two was label the '**Expert group'** consisted of six men and two women.

The response rate was fifty seven percent (57%). Generally, the interviewees expressed interest in participating in the study and welcomed the researcher to set the time. Some responses were;

> *I can get some friends - the company secretary, a member of the board and even the Senior Director of Corporate Development - to interview with you. How are you for time? (**Practitioner group**)*

> *Your invitation for MSWG to participate in your research study on "***Development of a Corporate Integrity Assessment Instrument Using Corporate Governance Indicators in Malaysia***" for your PhD study refers. We are agreeable to participate in the structured interview session as requested (**Expert group**)*

6.3 Data Analysis

This section discusses the results of the preliminary stage investigations in relation to the interview objectives as set out in Table 6.2. These data were analysed for identification of themes and similar responses. The tables report the number of times that responses were volunteered by the interviewee unless indicated otherwise.

6.3.1 Corporate governance practices in Malaysian GLCs

Interview subjects confirmed the corporate governance practices observed by Malaysian government link companies. The research investigated *Corporate Governance Issues, Corporate Governance Practices, Corporate Governance Disclosure, Corporate Governance as an Indicator to Integrity, Corporate Governance validation, Corporate Governance Issues not address by Regulations.*

6.3.1.1 Corporate governance issues

In the case of Malaysian Government Link Companies, there was an unresolved issue in regard to corporate governance reporting.

Table 6.2: Existence of Corporate Governance Issues in Malaysia.

Are there any issues with corporate governance reporting in Malaysia?	Practitioners	Corporate Governance Experts
Yes	4	6
No	-	2

Table 6.2 shows the interviewee perceptions regarding the existence of corporate governance issues in Malaysia.

Interview subject confirmed the existence of unsolved issues in corporate governance reporting. All of the practitioners were in consensus with this. Two interviewees from the corporate governance expert groups believed that there were no issues since the companies comply with the mandatory listing requirements. The balance of the expert group believes otherwise.

Similar to Che Haat (2005), this study confirmed that current users demanded more from the contents of annual reports and in addition, the contents of the information disclosed might not cater to the needs of the investors. This has resulted in users now considering other sources of information about the companies to be more reliable, trusted and easily accessible relative to the firm's annual reports. The interviewees' views were typified by the following;

> *We wouldn't want to report too many things in the annual report. As long as we comply with the Bursa Malaysia (Kuala Lumpur Stock Exchange) listing requirement that should be good enough* ***(Practitioner group)***

*Information reported is not transparent enough and there is a need for the information to be verified or certify for the trueness by an independent party. The current mandatory approach is not promoting integrity in corporate governance reporting, it should be change to aspiration approach (**Expert group**).*

Among the issues highlighted by the interviewee pertaining to Malaysian corporate governance reporting were listed in Table 6.3.

Table 6.3: Issues With Regards To Corporate Governance in Malaysia

What are the issues with regards to corporate governance reporting in Malaysia?	Practitioners	Corporate Governance Experts
Comply and report on mandatory requirement but lack on voluntary disclosure / Transparency of the report	3	4
Quality of directorship/ Human capital	1	5
Risk management	1	-
Monitoring and enforcement	-	2
Malaysian code on corporate governance should tailored to Malaysian listed company	-	1
Inefficient of information flow	1	1

Table 6.3 shows the interviewees perceptions of other issues raised with regards to corporate governance.

There was a consensus about companies having low transparency in reporting. The majority of the practitioners feel that companies only comply and report on mandatory requirements and need to improve on voluntary disclosure. This has resulted in having reports that are low in transparency. Half of the expert group agreed and have the same opinion as the practitioner group. As one practitioner said;

*Company are good in reporting the mandatory requirement which is being spell out in the listing requirement, but lacking in disclosure of best practice in corporate governance which is the voluntary disclosure (**Practitioner group**).*

Another major issue which the expert group considered as crucial was the quality of the directorships including: board knowledge, experience, capability, integrity values, attitudes and leadership values. Only one practitioner highlights this issue during the interview;

*Quality of the board is crucial because it influences the corporate culture. Good corporate governance starts from the top which then flows down. They are the setting the tones (**Expert group**).*

Risk management and flow of information within the company were other issues that the practitioners felt need to be improved as it was considered as a critical issue.

Other issues which the expert group highlighted during the interview were the need for monitoring and enforcement of the Malaysian code on corporate governance. The expert group were concerned with monitoring and enforcement in Malaysia which needs improvement. They also believe that the Malaysian code on corporate governance should be tailored to the nature and structure of the Malaysian listed companies, the majority of which are family based and state owned companies.

6.3.1.2 Corporate governance practices

Reviewing corporate annual reports has become one of the commonly used techniques to analyse corporate governance practices (Horwath 2002). Though such a technique is non-comprehensive in nature, the analysis could provide, to a certain extent, the relevant indicators of corporate governance actual practices. Responses to this question tried to gauge the current corporate governance practices in the company. The responses from the interviewee can be categorized into: good reporting, good practice and where revision or improvement is required.

Table 6.4: Corporate Governance Practices in the Organization

What actual Corporate Governance practices is in place in your/the organization?	Practitioners	Corporate Governance Experts
Good reporting	1	2
Good practice	3	-
Need revision / improvement	-	6

Table 6.4 shows the interviewees perceptions of the corporate governance practices in the organization.

It appeared that most of the expert group viewed corporate governance practice as needing to be revised or improved. In disagreeing with this view, a majority of the practitioners considered that companies are practicing good corporate governance. It appeared that only one interviewee from practitioner group and two from the expert group suggested that companies have good corporate governance reporting.

The differences between this two groups view may be a result of perception of the corporate governance monitoring body in Malaysia. The practitioners felt that the monitoring body has done a good job by closely monitoring companies through comprehensive corporate governance structures and guidelines. Whereas, the expert group feels that the existing structure and guidelines may still have room for improvement. They also felt that the monitoring and enforcement of corporate governance needs improvement.

The interview subjects were then asked about their views (Table 6.5) pertaining to the practices of corporate governance, whether it was practiced beyond the information that is published in the annual report.

Table 6.5: Corporate Governance Practices are beyond the Information in the Annual Report

Would you think corporate governance practice goes beyond the information's that are published in corporate annual reports?	Practitioners	Corporate Governance Experts
Yes	4	8
No	-	-

Table 6.5 shows the interviewees perceptions of the corporate governance practices are beyond the information in the annual report.

There was a consensus about this where both groups agreed that corporate governance practices were more than those reported in the published information in the annual report.

6.3.1.3 Corporate governance disclosure

Honest and accurate reporting was a fundamental value for the effectiveness of disclosure rules (Fasterling 2006). Kraakman (2004) then argues that inaccurate disclosures were difficult to detect and where disclosures were accurate, they still may have hidden implications that were difficult to uncover.

In order to gauge the accuracy of corporate governance reporting, interviewees' opinions were sought through the following question.

Table 6.6: Accuracy of Corporate Governance Reports.

How accurate are reports of corporate governance?	Practitioners	Corporate Governance Experts
Very accurate	1	1
Accurate	1	1
Need revision / improvement	2	6

Table 6.6 shows the interviewees perceptions of the accuracy of corporate governance reports.

Three categories of answer were identified; very accurate, accurate and need revision or improvement. The majority of the corporate governance expert group believes that corporate governance reporting needs revision or improvement since companies tend to report only on mandatory requirements but tend not to provide voluntary disclosures.

They suggest that the Bursa Malaysia (Kuala Lumpur Stock Exchange) should take charge as an independent party, to review and give assurance of the trueness of the information reported. This was because, in their opinion, corporate governance just provides legal boundaries for a company to operate but does not assure the reliability of the information. This may be due to the fact that although the report on corporate governance was guided by the code, it was not enforced by law. Half of the practitioners also agreed with this statement;

> *A corporate governance report is not like the financial report where it is governed by law and validated by an auditor (**Expert group**).*

After gauging their views on the status of corporate governance reporting accuracy, the interviewees were further asked about issues that were poorly reported. Six issues (Table 6.7) were highlighted during the interview.

Table 6.7: Issues That Is Poorly Reported

What issues are poorly reported?	Practitioners	Corporate Governance Experts
Directors benefit	2	1
Directors quality	-	4
Integrity and accountability issues	1	1
Risk management, internal control and audit	1	1
Shareholder matters	-	1
Assessment and action taken after assessment	-	3

Table 6.7 shows the responses on issues which are poorly reported in the companies' annual report.

Half of the practitioners believed that information pertaining to benefits received by directors such as remuneration, salary and bonuses were poorly reported. They felt that this was a sensitive issue on which companies do minimal reporting. This may be due to the nature and ownership structure of Malaysian listed companies, family based and state owned companies (highly concentrated ownership). In support of this, one interviewee from the expert group agrees with the practitioner views.

As for the expert group, they feel that information related to director quality, such as director performance, effectiveness and training was not being reported enough. This was another controversial issue on which companies do minimal reporting. There was no consensus about this issues received from the practitioner

The expert group also suggest that information related to the assessment conducted in the companies and action taken after assessment was poorly reported. As one expert said;

> *Assessment conducted in the company is just on the surface, eg YES or NO; and there is no report or data pertaining to the action taken after*

*the assessment. There is lack of quantitative data, for example detailed information on breaches of the code of ethics. If there is a report, it is very generic (**Expert group**).*

In contrast, the practitioners did not feel it was an issue. Other issues which were poorly reported were integrity and accountability issues and risk management and internal control. One interviewee from each group highlighted these two issues. Only one interviewee from the expert group felt that shareholder matters were poorly reported by companies in their annual reports.

After identifying issues which were poorly reported, the interviewees were then asked whether greater disclosure can address the issues.

Table 6.8: Greater Disclosure as a Solution.

Can it be solved through greater disclosure?	Practitioners	Corporate Governance Experts
Yes	4	8
No	-	-

Table 6.8 shows the interviewees opinion about how greater disclosure could be addressed as a solution to issues in corporate governance reporting.

There was a consensus about greater disclosure as a solution. All interviewees from both groups agreed that greater disclosure can perhaps solve many of the above issues in corporate governance reporting. Among the responses were;

*Companies should be more transparent in reporting, more accountable and they should do auditing and forensic accounting (**Practitioner group**).*

*Greater disclosure perhaps can help in this issue but enforcement and monitoring are really important. Revising the company's act might also help in addressing this issue (**Expert group**).*

6.3.1.4 Corporate governance as an indicator to integrity

Corporate governance reporting alone could not be a reliable indicator of the quality of company management; it was rather an indicator of the quality of the processes that govern the hiring, remuneration and overall monitoring of managers, (Grimaud 2006). In line with this statement, half of the practitioners do not believe that corporate governance reporting can be a reliable indicator of the quality and integrity of the company management. More than half of the expert group also agreed with the statement. The expert group suggested that independent verification of the reported information can perhaps make it a reliable indicator of management quality and integrity.

Table 6.9: Corporate Governance Reporting as a Reliable Indicator of the Quality and Integrity of Company Management

Do you think that corporate governance reporting (disclosure) can be a reliable indicator of the quality / integrity of company management? What is your opinion regarding this	Practitioners	Corporate Governance Experts
Yes	1	1
Perhaps	1	2
No	2	5

Table 6.9 shows the interviewees' opinions about corporate governance reporting (disclosure) becoming a reliable indicator of the quality / integrity of company management.

Only one interviewee from each group felts that corporate governance reporting can become a reliable indicator of management quality and integrity. The balance of the interviewees still has doubts about it. Some representative comments from interviewees include;

*Yes, to certain extend but not conclusively (**Expert group**).*

*Perhaps corporate governance reporting (disclosure) can be a reliable indicator of the quality or integrity of company management however corporate scandals still come into sight. There is a variance between corporate governance reporting and practice in the present form or situation. Until then corporate governance reporting is questionable (**Expert group**).*

*Corporate governance reporting (disclosure) cannot be a reliable indicator of the quality or integrity of company management. There is no relationship between corporate governance reporting and quality of management (**Practitioner group**).*

The corporate governance experts group provided a few suggestions on how corporate governance reporting can become an integrity indicator;

Corporate governance reporting must be material, timely and comprehensive where it is sanctioned by BOD and accepted by the regulators. The report must match and portray the company financial result or performance.

There should be a standard basis or guideline to report non financial information, for example, a report on human capital which involved measurement of values. Reports regarding this information should be on a voluntary basis.

Furthermore, the interviewees were asked about how corporate governance adds integrity to business. It appears that both practitioners and the expert group agreed that corporate governance provided a positive impact and helped in implementing integrity in an organization, since integrity was one of the core elements of corporate governance. There was also a consensus between both groups that corporate governance can provide assurance to the public regarding integrity in an organization and influence perceptions of an organization's reputation.

6.3.1.5 Corporate governance validation

Fasterling (2006) commented on the importance of honest and accurate reporting as a fundamental value for the effectiveness of disclosure rules. He then further argues that if honest reporting is not reliable, disclosure rules rapidly become inefficient, and must instead depend solely on enforcement and verification measures. Practitioners' opinions on whether verification of corporate governance reporting would disclose the integrity practices in a company were sought in the interview. Answers obtained from the interviews were either "yes" or "perhaps".

Table 6.10: Validation of Corporate Governance Reporting

Do you think external auditing of corporate governance reporting will disclose the integrity practices in a corporation?	Practitioners	Corporate Governance Experts
Yes	2	8
Perhaps	2	-

Table 6.10 shows the interviewees' opinions regarding how external auditing of corporate governance reporting discloses the integrity practices in a corporation.

There was a consensus among the expert group regarding this matter. They felt that external auditing of corporate governance reporting will help in disclosing integrity practices since it was an independent opinion which reviews and validates the reported information. This practice needs to be on voluntary or inspirational driven not on a mandatory or enforcement basis. The spin-off of from this exercise would be improving the corporate image. It would also promote and indirectly enforce good practices of corporate governance in the organization.

Two out of four practitioners agreed with the expert group opinion whereas the other practitioners were not sure whether external auditing of corporate governance reporting was practical and a suitable approach to disclosing the organization integrity practices. Among the issues that concerned the practitioners when corporate governance was audited were: *additional cost incurred by the company, a qualified compliance officer might have to be appointed and the auditing approach*. They suggested that the approach must be strategic and operational.

6.3.1.6 Corporate governance issues not addressed by regulations

In Malaysia, annual reports were seen to be less effective in conveying useful information to users due to the disclosure of information that was no longer relevant or that current users demand more from the contents of annual reports (Che Haat, Mahenthiran et al. 2005). Che Haat et al also found that users also considered alternative sources of information about the companies as more reliable, trusted and easily accessible relative to a firm's annual reports. There might be certain fundamental information that was lacking in the Malaysian disclosure framework as a study conducted by Standard and Poors also revealed that most of the companies in Malaysia still fell short of global disclosure practice (Standard & Poors 2004; Toh 2004). The interviewees were questioned regarding this matter. Seven identified issues were highlighted.

Table 6.11: Issues which are not being addressed by Corporate Governance

Are there any other issues which are not being addressed by corporate governance?	Practitioners	Corporate Governance Experts
Board – leadership/ roles/ quality	4	4
Human – values/ governance/ capital	3	3
Corporate Governance Auditing	1	2
Integrity values	1	-
Investment information	1	-
Public Role	1	-
Corporate social responsibility and environmental	-	1

Table 6.11 shows the interviewees' opinions regarding to issues which have not been addressed by corporate governance.

Board leadership, roles and quality were among the areas which receive inadequate emphasis in corporate governance regulations. All of the practitioner interviewees and half the expert group agree with this proposition.

Another major issue which both groups felt that corporate governance does not address sufficiently was related to human values, human governance and human capital. Three interviewees from each group come into consensus regarding this issue. Among comments pertaining to these two major issues was;

> *Human values which relate to staff spiritual development, good sport, leadership, board roles and board training are areas that corporate governance needs to stress (**Practitioner group**).*

> *The quality of the Board of Director is very crucial. The human resource department should promote quality and adherence to best*

*practice. Clarity in staff performance measurement and training availability are crucial to promote human capital (**Expert group**).*

Corporate governance reporting verification was another issue that both groups felt may help to address the current issues in corporate governance. Other issues that corporate governance does not address sufficiently were integrity values among board members, investment information, public roles in promoting good corporate governance practice and corporate social responsibility.

6.3.2 Concept and understanding of corporate integrity

Interview subjects provided their perspectives about the concept and understanding of corporate integrity. These included the *Definition of Integrity in a business context, Importance of Integrity, Existence and Practice of Integrity system, Issues and Challenges of Integrity.*

6.3.2.1 Definition of integrity in a business context

In order to gauge the definition of integrity, the interviewees were asked to define integrity from a business context. Two main streams were identified from the interview. The first stream relates to human values and the second stream relates to system values.

Table 6.12: Definition of Integrity

Define integrity and what does integrity means in business context?	Practitioners	Corporate Governance Experts
Good human values	4	8
Good system values	2	4

Table 6.12 show how interviewees define integrity.

Kimber et al (2001) defines the concept of integrity in relation to consistency of values and actions, words and deeds. He further defined integrity as being honourable, honest, loyal, faithful and trustworthy. This view was supported by the entire sample of interviewees who felt that good human values were what integrity was all about. It applied in both a general and a business context.

> *Integrity is the consistency of good intent, clear mind, credible words and ethical actions (**Expert group**).*

Apart from defining integrity as good human values, half of the interviewees from both groups also included good system values as part of the integrity definition looking from the business context. Good system values were to be found in a company that practises good corporate governance. This is in line with Fasterling's (2006) views about the present worldwide corporate governance objective, and that is to restore public faith in the integrity of business.

> *One of the corporate governance elements is integrity. Integrity should exist in company operations, standard procedures, staff values and company culture. Corporate integrity should be aspiration or incentive driven not a deterrent (**Expert group**).*

> *Today's Corporate Integrity is pretty generic and has become lip service or buzz words in the corporate worlds. The real definition of Corporate Integrity in my opinion is intended to guarantee the responsible use of power and respect for others' interest by practicing uncompromising integrity in doable action to serve owners or*

*stakeholders with growth and profitability. 'Do the Right Thing because it's the Right Thing to do' (**Expert group**).*

6.3.2.2 Importance of integrity

The interviewees were asked about the importance of integrity to business leaders in Malaysia and to listed companies.

Table 6.13: The Importance of Integrity

Do business leader in Malaysia think integrity important? How important do you think integrity to listed company / your company?	**Practitioners**	**Corporate Governance Experts**
Yes, very important	4	8
Yes, important	-	-
Neither important or unimportant	-	-
Very unimportant	-	-

Table 6.13 show the important of integrity to the interviewee.

There was a consensus regarding this matter where the entire sample of interviewees felt that integrity was very important to both business leaders and listed companies. This was in line with Razak's (2005) suggestion about sustaining economic prosperity by promoting integrity. As for integrity, its value in the Malaysian private sector was a concern. Corporate governance and business ethics plays an important role. Various scandals and malpractices, involving both foreign and local companies, have time and again demonstrated the need to uphold good governance (Razak 2005).

*Integrity is increasingly important because many malpractice or bad governance cases pop up. Investors usually feel that company with integrity will perform financially and have high market value (**Expert group**).*

The interviewees were then asked to rank corporate integrity among the top ten important issues in the company. There were three common answers given by the interviewee; first rank, second rank or top three ranks. It clearly shows that the entire sample considered corporate integrity as a top priority to their company.

Table 6.14: Corporate Integrity Ranking

Of the top ten issues that are important to your company, where would you place corporate integrity?	Practitioners	Corporate Governance Experts
First	-	2
Second	1	1
Top three	3	5

Table 6.14 show how integrity being rank by the interviewee.

The majority placed corporate integrity as one of the top three of the top ten issues which were important to a company. One interviewee from each group ranked corporate integrity as second most important and another two interviewee from the expert group ranked corporate integrity as a company's first priority. As one expert said;

> *Yes, indeed as a matter of fact in this country it's a no-nonsense part of high compliance and conformance for them to continue to stay afloat as public listed companies in Bursa Malaysia. It's rather difficult to quantify its scale; my own assessment rated it as issue number 1 of 10 (**Expert group**).*

6.3.2.3 Existence and practice of integrity system

The interviewees were asked about their own company's integrity system. This was to gauge the existence and practice of integrity in their company.

Table 6.15: Existence of Integrity System in the Organization

Does your organization have 'integrity system' in place?	Practitioners	Corporate Governance Experts
Yes	4	8
No	-	-

Table 6.15 show the existence of integrity system in the organization.

It appeared that all interviewees were in consensus about the existence and practice of integrity in their companies. As one managing director said;

> *Yes, we call it **integrity road map** because our Managing Director is the 'Integrity champion' (**Practitioner group**)*

A few interviewees mentioned that the term 'integrity system' was not commonly used in their company. Yet, company do have systems which promote integrity practices. As one practitioner said;

> *Yes, but it is not call 'integrity system'. We have a system in the company which also aim to uphold integrity (**Practitioner group**).*

The expert group views a company integrity system as one that was embedded in the company operation and procedures. They also commented that documentation referring to integrity practices need improvement since they were not properly maintained by companies.

Next, the interviewees were asked whether code of ethics or conduct exists and were being practiced in the companies. All the interviewees recognised the existence of the code and confirmed that it was being practiced by their companies.

Since the interview subject confirmed the existence of such code, they were asked if their company collected and documented the ethical matter. Table 6.16 provides the responses from the interviewees.

Table 6.16: Collection of Ethical Data in the Organization

Do you collect data about your company ethics?	Practitioners	Corporate Governance Experts
Yes	4	7
No	-	1

Table 6.16 show the collection of ethical data in the organization.

The entire sample of the practitioners agreed that their company collected and documented information on ethical matters because it was part of the company policy. As for the expert group, almost all agreed that companies collect ethical data and only one expert representative said "no". This may be due to his perception of the quality and the comprehensiveness of the data collected. This notion was also being supported by the rest of the expert group saying that companies did collect ethical data but it may not be as comprehensive as it should be.

Another issue which closely related to the "Code of Ethics" were the whistle blower policies. Since corporate whistle blower policies were required under the 2002 Sarbanes-Oxley Act, the interview subject was asked about the existence of such policy in their company. Table 6.17 present the responses from the interviewees.

Table 6.17: Existence of a Whistle Blower Policy in the Organization

Do you have a whistle blower policy?	Practitioners	Corporate Governance Experts
Yes	4	7
No	-	1

Table 6.17 show the existence of a Whistle Blower Policy in the organization.

All of the practitioners said that their company had a whistle blower policy. The boards recognised any genuine commitment to detecting and preventing illegal and other undesirable conduct. Employees and others can report their concerns freely and without fear of repercussion. This policy provides such a mechanism, and encourages the reporting of such conduct. Almost the entire expert group agreed with the practitioners. Only one expert representative denied the existence of a whistle blower policy in a company. He said;

> *Whistle blower policy is pretty much of an unconscious issue and it is still far from reach (**Expert group)**.*

Another expert representative said;

> *Not all companies have Whistle Blower policies since the '**Witness protection bill**' is still not legislated (**Expert group)**.*

6.3.2.4 Issues and challenges of integrity

The National Integrity Plan (NIP) was accepted by the Malaysian Government as a plan of action to enhance ethics and integrity on 23 April 2004 at Putrajaya. It demonstrates the Malaysian's Government's commitment to achieving economic progress that was consistent with good personal values and ethical corporate conduct (Government of Malaysia 2004). In order to achieve this target there were issues and challenges faced.

The interviewees were asked about their opinion regarding issues and challenges faced by a company in maintaining integrity. Three common answers given are: human factors, communication, system and process.

Table 6.18: Issues and Challenges of Integrity

What are the major issues / challenges faced by your / the company in maintaining integrity?	Practitioners	Corporate Governance Experts
Human factors	4	8
System / Process	3	8
Communication	2	1

Table 6.18 show the issues and challenges faced by the organization in maintaining integrity.

It appeared that all interviewees viewed human factor as the major challenge in maintaining integrity. This was in line with Salleh's et al (2008) argument about the organizations being controlled and run by people. They were the ones acting on behalf of the company. That was why evidence shows that most corporate failures in the US and the world centre on fraud, man's weakness (Le Pla 2005). Wolf (2008) and Villiger (2008) also views human greed as the cause of financial crises in the recent cases of liquidity issues of Northern Rock and Bear Stearns. As one practitioner said;

> *In general, majority Malaysian business leaders 'captains of industry' are fully aware about the importance of integrity, however very few of them approved the formal process of corporate integrity inside their company level in terms of budget, strategy plans, investments, sales & marketing and etc. simply because companies have to make a profit to survive in a hypercompetitive economy. They believe in integrity but act differently (**Practitioner group**).*

Comment made by one expert representative;

> *Human attitudes, human values, human culture and human competency are all contributing factors in maintaining integrity (**Expert group**).*

From the interview exercise, it can be said that the system and process in the company can be a barrier to integrity practice. As the expert group mentioned earlier, an integrity system should be embedded in a company's operation and procedures. The company need to ensure their business system and process promotes integrity. This statement is in line with Rasmussen's (2011) opinion on corporate integrity where in order for a corporation to have integrity, it must have an ethical environment with employees and business partners willing to follow and enforce corporate culture, policies and procedures. A proper enforcement and monitoring of integrity practice were really important structures which most companies failed to establish.

The third challenge to integrity was communication. One practitioner felt that the value of integrity was not communicated well and viewed integrity as a jargon word. In supporting of this, the expert group felt the information flow was important to ensure integrity values were well communicated throughout the company. As one expert representative said;

> *The BOD or the company chairman should become the tone setting for integrity practice. Most of the company integrity initiative if it exists is usually stuck at the top and is rarely being cascaded down to the people at large in their organization (**Expert group**).*

The interviewees were then asked about the factors that contributed to the above challenges. The interviewee views were grouped into two main factors, internal and external factors.

Table 6.19: Factors that Contribute to the Issues and Challenges

What are the factors / reasons that contribute to the issues / challenges mentioned earlier?	Practitioners	Corporate Governance Experts
Internal factors Values/ board leadership/ Company resources/ company structure / system	3	6
External factors Business politics/ environment/ industry pressure/ government/ authority/ ministry	1	4

Table 6.19 show the factors that contribute to the issues and challenges faced by the organization in maintaining integrity.

A company is defined by values and ethics. Values and ethics were either formally defined and managed or were left to be defined by a variety of pressures and influences (Rasmussen 2011). It was observed that the majority of the interviewees felt that internal factors were the major contributor to integrity practice in a company. Among the internal factors that may define company values and ethics were human values, board leadership, company resources, company structure or system and company's culture. As one expert said;

> *Human factors are the main barrier contributing to low integrity practice. Company employees need to be involved and feel integrity in heart. Seriousness and consistency of the management are crucial. The board or top management also need to be involved and be consistent (**Expert group**).*

Interviewees from the practitioner group view adequate resource and communication flows in a company as another integrity barrier.

> *In many cases the board has to rely on management report, which is responsible for the day-to-day operation. There is a high tendency for a board to be unable to know and grasp about the market trend, financial report, competition, customer's requirements, organization and etc. Such boards failed to detect the problem at sight and in the end things got worse before it's got better (**Practitioner group**).*

Even though internal factors were viewed as the main contributor to the failure in integrity practice, external factors that influenced integrity were business politics, business environment, industry pressure and government policy.

Among the example of external factors which influence integrity practices in a company were: industry pressure especially from competitors; the environment in which the company was operating; the government's role in setting the tone for the share market; the country political situation and government authorities. The external factors will influence how company manage and operate their business. For example if the regulatory body play an effective enforcement and monitoring role, it can be expected that a company will have less issues in maintaining integrity in their organization.

Table 6.20: Suggestions on how to Instil Integrity Value in a Corporation

Are there any other suggestions on how to instil integrity value in a corporation?	Practitioners	Corporate Governance Experts
Training/ human capital/ ESQ	4	1
Adequate system/ Value/ Process	-	2
Regulators roles/ investors roles/ Shareholder activisms	-	2
Public announcement	-	1
Key Performance Indicator	-	1
Company culture	-	1

Table 6.20 show the interviewee suggestions on how to instil integrity value in a corporation.

The entire practitioner group suggested that providing training and increased awareness among staff members regarding integrity values would be a good way to instil integrity within the company. Fasterling (2006) also agrees that increasing awareness of human values such as honesty and integrity would be the best approach to address this issue. On the other hand, the expert group believes that an adequate system, stress on values and process rather than on rules and regulation might help in promoting integrity in a company.

> *Provide training and promote awareness on integrity among staff member; example ESQ training (**Practitioner**).*

> *Integrity in business is a must for all corporations as it able to instil protective systems by which business corporations are directed and controlled. The control must be 'kaizen' with checks and balances between the supervisory and executive part of the corporation's (**Expert group**).*

The expert group also felt that regulators' roles, investors' roles, and shareholder activism were other factors that can promote integrity. One of the interviewees from this group also suggests that a clear liaison with regulators may help effective enforcement being conducted. Other suggestions made by the expert group were to have effective public announcements pertaining to any corporate governance issues, publishing key performance indicators and having the right company culture.

6.4 General Discussion

The aim of the preliminary study was to map corporate governance practices in Malaysia. It provided a deeper and broader understanding of the practice of corporate governance by gathering observations within the context of the Malaysian government link companies. The meaning and understanding of corporate integrity among the companies were also being captured from the exercise.

Interview questions attempted to draw responses from interviewees to the concepts that emerged from the literature review. Overall the responses contributed positively to these concepts. The following is a summary of the observations made from themes contained within interview responses.

6.4.1 Effective and reliable corporate governance reporting

This was an issue identified from interview responses. It was seen by many interviewees as critical as annual reports are seen to be less effective in conveying useful information to users. Users were also considering alternative sources of information about the companies as more reliable, trusted and easily accessible relative to the firm's annual reports. The literature supports the notion of annual reports failed to convey useful information (Che Haat, Mahenthiran et al. 2005).The needs to address this issue is crucial since annual reports are seen as the main medium to convey information to investors.

6.4.2 Importance of board of director in governing company

Interview responses highlighted the importance of boards of directors. The board of directors significantly influences company corporate governance practice. In order to promote transparent corporate governance reporting, voluntary acts from within, based on sincerity, rather than conforming to an external requirement are crucial (Salleh and Ahmad 2008). Since companies are ultimately controlled and run by a board, it is fair to assess corporate governance practice from a board perspective in assessing company corporate governance practices. The assessment of corporate governance practice from the boards of directors' perspective was investigated in Stage two.

6.4.3 Validation of corporate governance reporting

As observed in responses to questions associated with issues in Malaysian corporate governance reporting, there appeared to be strong support for validating corporate governance reporting. This was an interesting result as all interviewees from the expert group and most of the practitioners tended to agree that validation of corporate governance reporting will help in disclosing good corporate governance and integrity practices. The validation of corporate governance reporting was investigated within Stage two.

6.4.4 Concept and understanding of corporate integrity

There was evidence that interviewees understand the concept of corporate integrity. It appeared that these interviewees viewed corporate integrity as part of corporate governance. Corporate integrity was seen by some of these interviewees as the result of good corporate governance practice in the company. Investors usually feel that a company with integrity will perform financially and have high market value. The relationship between corporate integrity and company performance is being investigated in Stage three.

6.5 Summary

Overall the preliminary study results confirmed the issues of corporate governance reporting and corporate governance practice were not yet resolved in Malaysian government link companies. Results gauged the current practice and issues of corporate governance. Recommendations to address the issues were identified and clear understanding of the integrity concept was acquired.

The preliminary study also confirmed the conceptual framework and gave direction to the main study. Corporate governance indicators can be used to assess corporate integrity if corporate governance reporting is validated. The validation is being done by benchmarking ‘perception’ and ‘reporting’. ‘Perception’ means the boards of directors and top management perceptions and opinions about company corporate governance and 'reporting' is the company corporate governance reporting practice. The next chapter will present findings from the second stage of investigation.

CHAPTER 7: CORPORATE INTEGRITY INDICATORS AND ITS IMPORTANCE

7.1 Chapter Description

Chapter seven presents the results from the questionnaire that forms the basis of stage two investigations. The focus for this stage was to identify the corporate governance indicators that can be used to model and measure corporate integrity. The results will also determine the importance of each indicator identified in modelling corporate integrity.

The chapter was divided into three sections. The first section begins with the response rate of the survey, non-response issues, a short discussion on the characteristics of the respondents and then presents and discusses the frequency distributions of the data as they relate to the variables under investigation, including observed differences. The second section presents the multivariate analyses, which identify factors to model and measure corporate integrity. The analysis also highlights the importance of each factor in modelling and measuring company integrity. Analysis for scale reliability testing was also specified in this section. The last section presents descriptive statistics on respondents' perception about the company corporate governance practice. It highlights how the company boards of directors and top management perceive their companies corporate governance practice. Factors identified from the multivariate analysis used to guide the findings presentation.

7.2 Sample Characteristics

The discussions, in this section, were centred on:

1. response rate;
2. non-response issues; and
3. respondent profile analysis and the cross tabulation of data.

7.2.1 Response rate

A total of three hundred and fifty questionnaires were distributed via mail to company board of directors and company top management in Government link companies across Malaysia. The first mail invitation was sent on 3rd of February 2009. The first reminder was sent on 23rd of February 2009, followed by the second reminder on 16th of March 2009, and the third reminder was sent out on 30th of March 2009. A final reminder was sent on 20th of April 2009 (see chapter five for a discussion of the method used to select the sample and conduct the survey). Respondents were given a grace period up till 30th of June 2009 to return the completed questionnaire.

One hundred and eighty three surveys were completed. This gives a response rate of fifty two percent. The follow up action by the researcher was limited to monitoring of the administration of the survey through frequent contact with the respective companies. It was not possible for the researcher to involve the companies again in the survey process to follow up on non-respondents. Thus, the problem of non-response bias was address in this study (refer Chapter 5 under 5.6.3.1 Non-response bias and in this chapter 7.2.2 Non-response issues).

A review of the literature reveals a wide variation in the description of an appropriate response rate. According to Hair et al (1995), the sample size that exceeds 300 would be considered statistically significant. Babbie (1998) in the other hand suggests that a response rate of 50% is adequate for analysis and reporting. Another scholar (Sekaran 2000) believes that a 30% response rate is acceptable, where as Singleton (1993) does not identify a specific percent but considers ‘moderate response rates are satisfactory’. The profile is representative of the target population.

In recognition of the fact that the response rate is representative of the sample and falls within the range identified as acceptable by Babbie (1998) and Sekaran (2000), the response rate is considered to be sufficient to ensure validity.

7.2.2 Non-response issues

Non-response is a common problem in any survey, and it raises the question of whether or not the non-respondents are significantly different from those who responded. Churchill and Iacobucci (2002), point out that although non-response can potentially create a non-observation bias or a sampling error, it is difficult to estimate this error.

Another unknown factor is the reasons for the non-response. According to Churchill and Iacobucci (2002), and Malhotra et al (2002), reasons such as refusals, wrong mailing addresses, and lost mail, can be attributed to non-response; all but the last reason may introduce a non-response bias.

In order to minimize the impact of non-response bias, the total sample used in this study was adjusted in terms of equal sample sizes of respondent from each company. The use of equal sample sizes, as explained in section 5.6.2, improves the statistical significance and validity of the sample (Hair, Anderson et al. 1995).

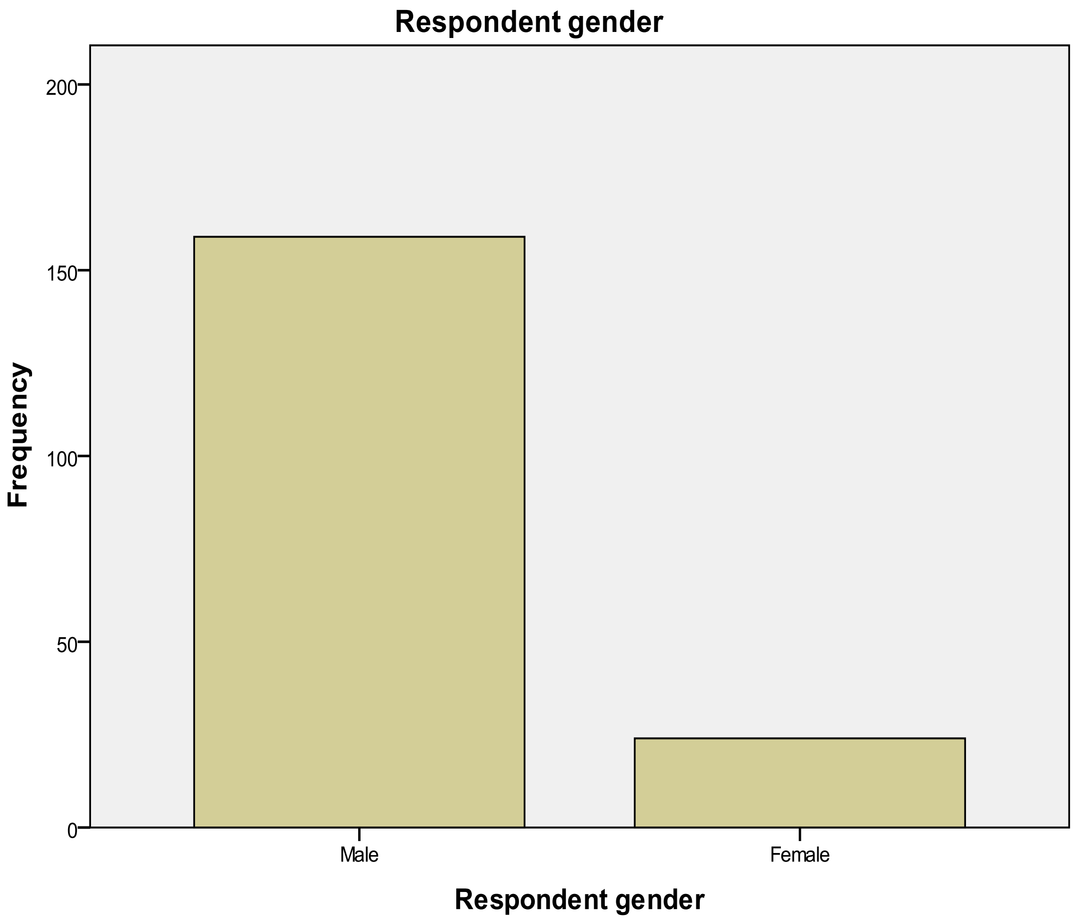
7.2.3 Sample profile analysis and cross tabulation of data

7.2.3.1 Individuals

Table 7.1: Respondent Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	159	86.9	86.9	86.9
	Female	24	13.1	13.1	100.0
	Total	183	100.0	100.0	

Table 7.1 shows the gender of the sample.

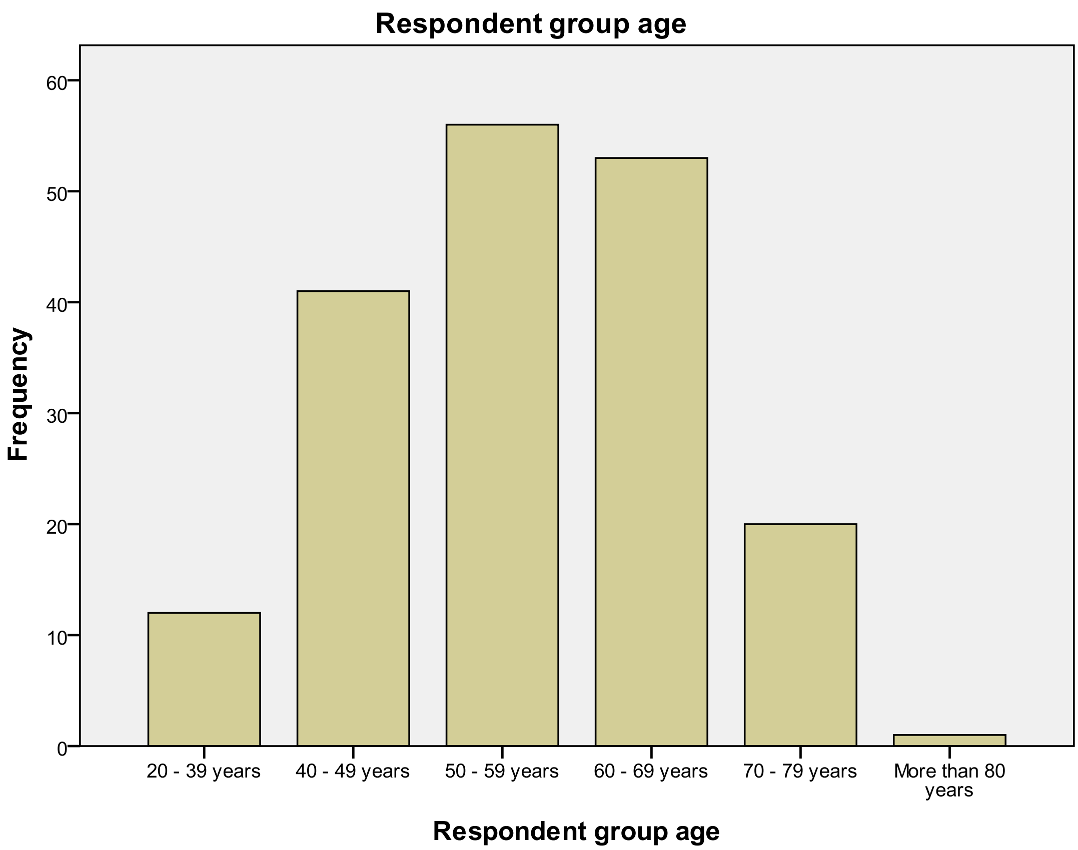


As shown in table 7.1, the gender of the sample was not equally distributed with 159 males and 24 females, representing 86.9% and 13.1% respectively of the total sample.

Table 7.2: Respondent Group Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 - 39 years	12	6.6	6.6	6.6
	40 - 49 years	41	22.4	22.4	29.0
	50 - 59 years	56	30.6	30.6	59.6
	60 - 69 years	53	29.0	29.0	88.5
	70 - 79 years	20	10.9	10.9	99.5
	More than 80 years	1	.5	.5	100.0
	Total	183	100.0	100.0	

Table 7.2 shows the age group of the sample.



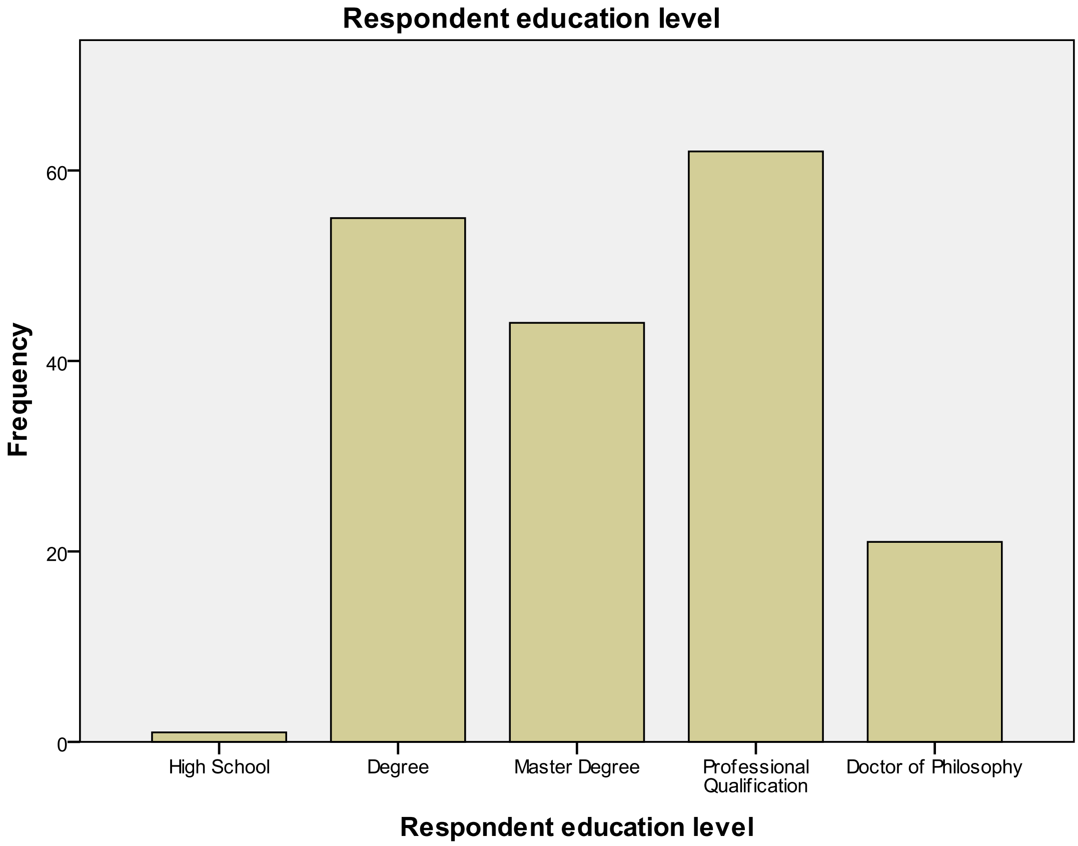
The statistics in table 7.2 show that 93.4% of the respondents were above 40 years. The majority of the respondent which represent 82% of the total sample came from these three age category. The age category 50 – 59, the age category 60 – 69 and followed by the age category 40 – 49, representing 30.6%, 29% and 22.4% respectively of the total sample. Eleven percent of the respondents were in 70 – 79 age categories and another 5% were more than 80 years of age. The distribution of the sample by age was significance to the present study in terms of obtaining an in depth and accurate corporate governance practice since the respondents were considered senior and experienced member of the company.

The balances of the respondents which were below 40 years old only represent 6.6% of the total sample. They were the age categories of 20 - 39 years old which represent the minority group for the sample respondent.

Table 7.3: Respondent Education Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High School	1	.5	.5	.5
	Degree	55	30.1	30.1	30.6
	Master Degree	44	24.0	24.0	54.6
	Professional Qualification	62	33.9	33.9	88.5
	Doctor of Philosophy	21	11.5	11.5	100.0
	Total	183	100.0	100.0	

Table 7.3 shows the education level of the sample.



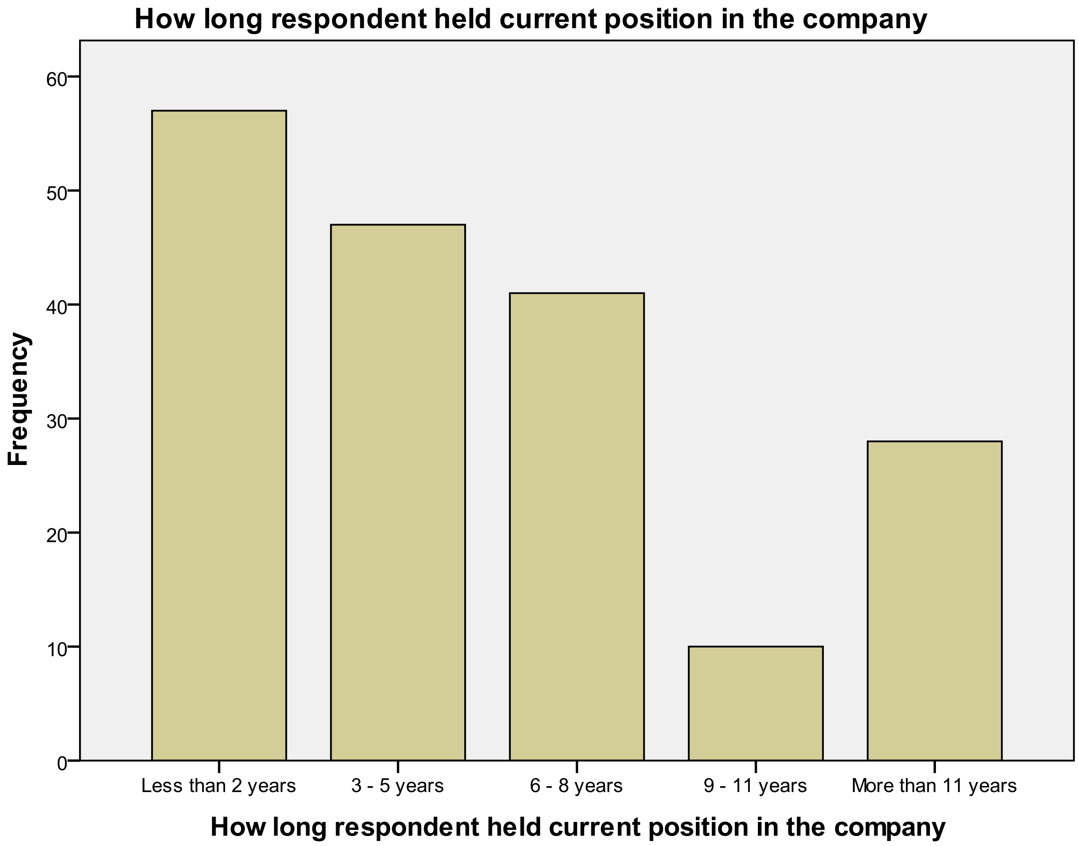
As shown in table 7.3, most of the respondents in the sample (99.5%) have tertiary education level. The professional qualification, degree and master degree were the three education level which the majority respondents have, representing 33.9%, 30.1% and 24% respectively of the total sample. Twenty one percent of the respondents have Doctor of philosophy and another 5% only have high school qualification.

The distribution of the sample by education level was of significance to the study in terms of obtaining a reliable assessment of corporate governance practice since the results of the study will have a stronger influence from well educated respondents in the sample.

Table 7.4: Respondent's Length of Employment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	57	31.1	31.1	31.1
	3 - 5 years	47	25.7	25.7	56.8
	6 - 8 years	41	22.4	22.4	79.2
	9 - 11 years	10	5.5	5.5	84.7
	More than 11 years	28	15.3	15.3	100.0
	Total	183	100.0	100.0	

Table 7.4 shows respondent's length of employment.



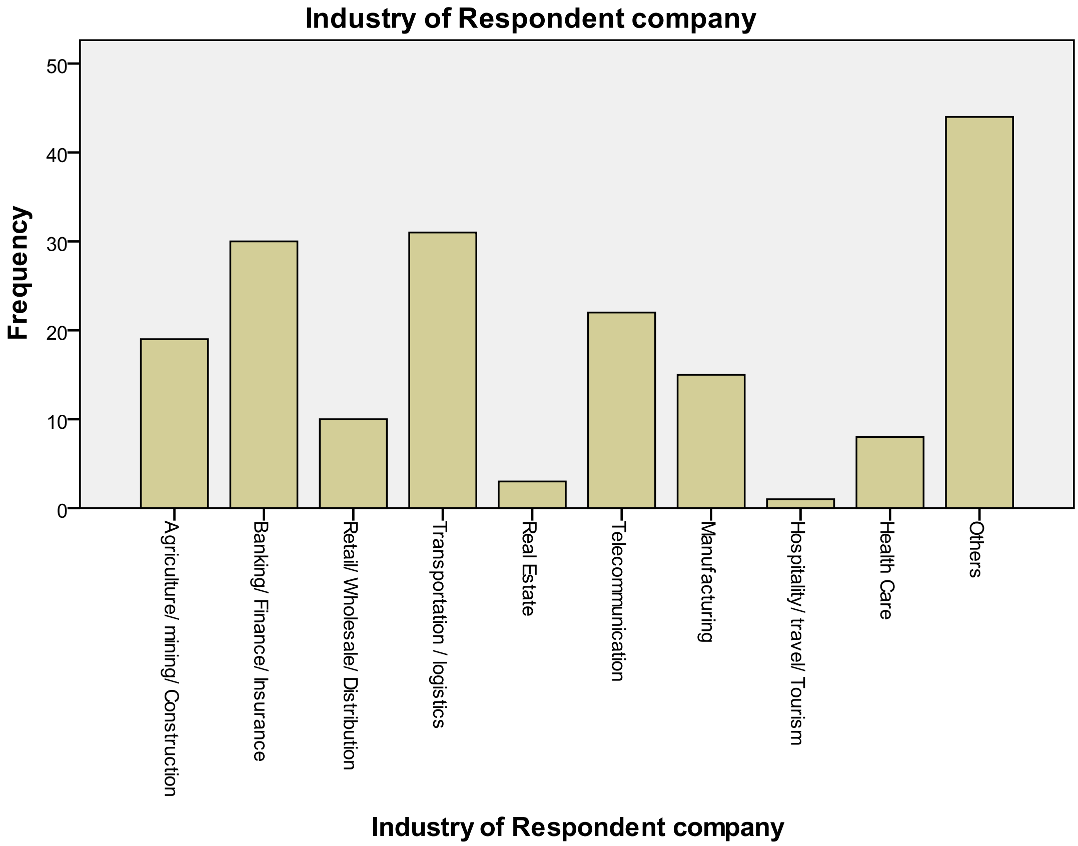
As set out in Table 7.4, 15.3% of respondents said they held the current position for more than 11 years. However, approximately 31.1% of respondents said they had only been working in their current position for less than two years, 25.7% of respondents said that they had been in the current position for less than five years and 22.4% of respondents only held the current position for less than eight years.

The distribution of the sample by length of holding current position was of significance to the study since there was a good mixed of respondent from the entire five categories. The result of the study will not be influenced by any one category in the sample.

Table 7.5: Respondent Industry Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agriculture/ mining/ Construction	19	10.4	10.4	10.4
	Banking/ Finance/ Insurance	30	16.4	16.4	26.8
	Retail/ Wholesale/ Distribution	10	5.5	5.5	32.2
	Transportation / logistics	31	16.9	16.9	49.2
	Real Estate	3	1.6	1.6	50.8
	Telecommunication	22	12.0	12.0	62.8
	Manufacturing	15	8.2	8.2	71.0
	Hospitality/ travel/ Tourism	1	.5	.5	71.6
	Health Care	8	4.4	4.4	76.0
	Others	44	24.0	24.0	100.0
	Total	183	100.0	100.0	

Table 7.5 shows respondent industry sector.



Forty four respondents were from others industry sector which was not being provided in the demography part of the survey questionnaire. Thirty one respondents came from the transportation/logistics sector, thirty respondents from banking/finance/insurance sector, twenty two respondents from telecommunication sector, and nineteen respondents represent the agriculture/mining/construction and fifteen respondents came from the manufacturing sector. The other sectors only have ten or fewer respondents participate in the study.

The study input (from respondents) from different industry sector provides a balanced response in terms of obtaining a realistic assessment of corporate governance practice among Malaysian government link companies.

The above respondent profile indicates that the sample chosen for the study possesses both uniform and diverse characteristics, making it adequately representative of the board of directors and top management in Malaysian government link companies.

The following sections of the chapter discuss the quantitative techniques and the processes used to analyse the data.

7.3 Factors Identification

This section presents the factor identification for corporate integrity assessment based on corporate governance indicators. Seven corporate governance indicators were used in identifying the factors. In each of the corporate governance indicator, factors were identified to model and assess corporate integrity. Responses from the company board of directors and top management were used to identify the factors which then will be used to model and measure corporate integrity.

The discussions, in this section were centred on:

1. factor analysis; and
2. reliability analyses.

7.3.1 Multivariate analyses

Likert-scaled variables were subjected to factor analysis. The principle component method was used to extract the factors. This method was the most frequently used approach and transforms correlated variables into a new set of principal components not correlated to each other (Cooper and Schindler 2003). The linear combination of these components, called factors, then account for the variance in the data. Extraction was followed with Varimax rotation method with Keiser normalization.

This approach avoids potential problems with ‘factor indeterminacy’ associated with factor analysis (Stevens 1996). An empirical summary of data set can be obtained from this method (Tabachnick and Fidell 2001). Two statistical measures were used to assess the factorability of the data: Bartlett’s test of sphericity (Bartlett 1954) and the Kaiser – Meyer- Olkin (KMO) measure of sampling adequacy (Kaiser 1970; Kaiser 1974).

In determining the number of factors that can be used to best represent the interrelations among the set of variables, an exploratory approach were adopted, where different numbers of factors were experimented until a satisfactory solution was found, (Tabachnick and Fidell 2001). The techniques used to assist in the decision concerning the number of factors to retain in this study were Kaiser’s criterion or the eigenvalue rule and Catell’s scree test (Catell 1966).

Using eigenvalue rule, only factors with an eigenvalue of 1.0 or more were retained for further investigation. The eigenvalue of a factor represents the amount of the total variance explained by that factor. Catell’s scree test approach involves plotting each of the eigenvalues of the factors and inspecting the plot to find a point at which the shape of the curve changes direction and becomes horizontal. Catell recommends retaining all factors above the break in the plot, as these factors contribute the most to the explanation of the variance in the data set.

The purpose of factor analysis was to uncover relationships among many variables and to allow numerous interconnected variables to be condensed into fewer dimensions, called factors. This permits the validation of the construct built around the conceptual framework.

As set out in the conceptual framework, corporate integrity practices assessment was using corporate governance indicators. Based on the data, an attempt has been made to validate the conceptual framework. The corporate governance indicators that can be use to assess corporate integrity has been identified through this analysis.

7.3.1.1 Factors analysis - Directors

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 6825.037, which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin (KMO) measure of sample adequacy had a highly acceptable value of 0.745 (Hair, Anderson et al. 1995).

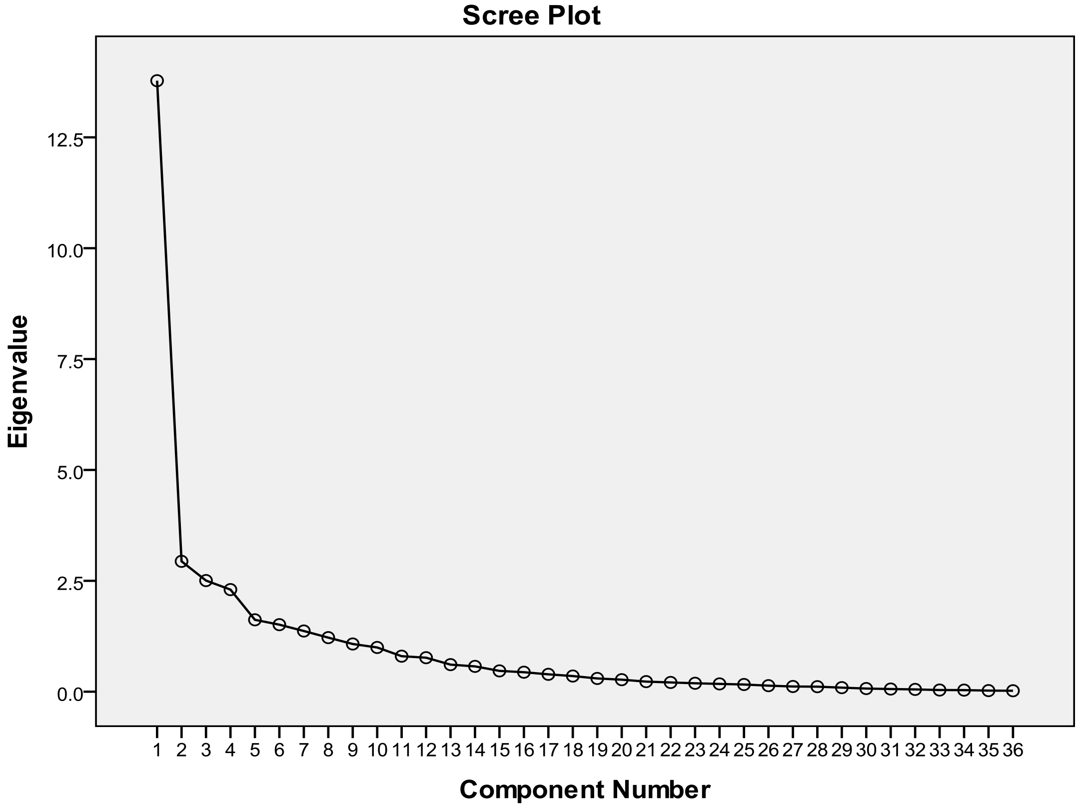
Table 7.6: KMO and Bartlett's Test – Directors

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.745
Bartlett's Test of Sphericity	Approx. Chi-Square	6825.037
	Df	630
	Sig.	.000

Table 7.6 show Directors KMO and Bartlett's Test.

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.7.

Table 7.7: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. All nine factors identified had a minimum eigenvalue of 1, and the values of the selected factors ranged from 1.075 to 13.777 accounting for 78.7% of the total variance explained. Further examination of the initial statistics reveals that the first factor, Director 1 was predominant with an eigenvalue of 13.8, followed by other factors with eigenvalues ranging from 2.9 to 1.1.

Based on these results, it can be surmised that the factor Director 1 was the most significant component in assessing director's integrity. This factor accounted for 38.3% of the total variance explained by all factors, further validating its strength.

Table 7.8: Total Variance Explained

Factors	Initial Eigenvalues Eigenvalues	Individual %	Cumulative %	Extraction Sums of Squared Loadings Eigenvalues	Individual %	Cumulative %	Rotation Total
Director 1	13.777	38.269	38.269	13.777	38.269	38.269	4.630
Director 2	2.940	8.165	46.434	2.940	8.165	46.434	3.878
Director 3	2.506	6.960	53.395	2.506	6.960	53.395	3.787
Director 4	2.302	6.395	59.789	2.302	6.395	59.789	3.761
Director 5	1.621	4.502	64.291	1.621	4.502	64.291	3.175
Director 6	1.511	4.197	68.488	1.511	4.197	68.488	2.486
Director 7	1.368	3.801	72.289	1.368	3.801	72.289	2.287
Director 8	1.219	3.386	75.674	1.219	3.386	75.674	2.218
Director 9	1.075	2.986	78.661	1.075	2.986	78.661	2.095

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.1.1 Factors loading and description – Directors

The factor analysis resulted in nine factors with 33 variables from the original 36 variables, loading heavily. Factor scores ranged between 0.506 and 0.880. Tables 7.9 to 7.17 show the factors identified as critical to director's integrity and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the nine factors. The nine factors comprised of 6, 4, 5, 6, 2, 3, 2, 3 and 2 variables respectively. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in ten iterations.

The nine factors resulted in the following factor labels; Director 1, Director 2, Director 3, Director 4, Director 5, Director 6, Director 7, Director 8 and Director 9.

The first factor, Director 1 comprises six variables with significant loadings on this dimension. Table 7.9 lists the variables and the factor loadings. This factor addresses the board roles, responsibility, authority, competencies, training and participation in decision making process. Director 1 can be referring to 'Board roles and responsibilities'.

Table 7.9: Director 1 - Roles and Responsibilities Variables	**Loadings**
Clear understanding of the separation of responsibilities between chairman & CEO	.844
Board are aware & informed about training program available to them	.785
The number of Non-Executive participation on the board encourages effective decision	.772
Board has competencies in business & management experience	.662
Clear understanding of role & responsibilities	.582
Company board committee has a clear understanding of their authority and report to the board	.552

Table 7.9 shows variables and loadings for Director 1.

The second factor, Director 2 consists of four variables as shown in Table 7.10. Director 2 variables address the procedures for board election/ re-election, appointment and re-appointment, Nomination committee consideration for board criteria and board capacity to access to professional advisors. Director 2 can be referring to 'Board selection and appointment'.

Table 7.10: Director 2 - Selection and Appointment Variables	**Loadings**
Procedures for election and appointment of the board members are clear, formal and transparent	.839
The company procedures for the re-election and re appointment are clear, formal & transparent	.765
The nomination committee considered the following criteria as director; calibre, credibility, skill, knowledge, expertise, professionalism, experience and integrity	.723
Board has capacity to have independent access to professional advisors	.540

Table 7.10 shows variables and loadings for Director 2.

The third factor, Director 3 contains five variables, which incorporate board competencies in industry knowledge and customer based experience, timely information received from the company, regular meeting with due notice and detailed agenda for board meeting. The variables are shown in Table 7.11. Director 3 can be referring to 'Board meeting and information'.

Table 7.11: Director 3 - Meeting and Information Variables	**Loadings**
Board has regular meetings with due notice of issues to be discussed without management present	.775
Board has competencies in industry knowledge	.676
Board receives timely information and detailed agenda for board of directors meetings	.652
Board has competencies in customer based experience/knowledge	.554
Board is supplied with timely and quality information from company to enable them to discharge their duties	.506

Table 7.11 shows variables and loadings for Director 3.

The fourth factor, Director 4 consists of six variables related to the role of remuneration and nomination committee, board has minority shareholder representative and the independent of Chairman and CEO. The variables are shown in table 7.12 with the loadings dimension which range from .516 to .835. Director 4 can be referring to 'Board committee function, minority shareholder representative and chairman and CEO independency'.

Table 7.12: Director 4 – Committee Function, Minority Shareholder and Independency Variables	Loadings
The remuneration committee sets appropriate remuneration for the board members	.835
The remuneration committee sets appropriate remuneration for the CEO	.790
The nomination committee actively finds and nominates new directors when needed	.693
Board has minority shareholder representation	.692
The nomination committee documents all assessments and evaluations carried out in discharge of its function	.648
Chairman and CEO are independent of each other	.516

Table 7.12 shows variables and loading for Director 4.

The fifth factor, Director 5 consists of two variables that relates to company vision, mission and strategic goal. The variables are shown in Table 7.12 with the loadings which range between .769 and .880. Director 5 can be referring to 'Company vision'.

Table 7.13: Director 5 – Vision Variables	Loadings
Activities of the company agree with the vision, mission and strategic goals	.880
Board have a clear understanding of the company vision, mission and strategic goals	.769

Table 7.13 shows variables and loadings for Director 5.

The sixth factor, Director 6 consists of three variables related to board schedules for making decisions, board reviews of the company strategic goals and company procedures for succession planning for management team. The variables are shown in Table 7.14. Director 6 can be referring to 'Board operational procedure'.

Table 7.14: Director 6 – Operational Procedure Variables	Loadings
Board has a formal schedule of matters specifically reserved for its decisions	.760
Company procedures for the succession planning for Mgt team is clear, formal and transparent	.684
Board regularly reviews the company strategic goals	.532

Table 7.14 shows variables and loadings for Director 6.

The seventh factor, Director 7 consists of two variables related to board access to company secretary and board approval on company Key Performance indicators (KPI). The variables are shown in Table 7.15. Director 7 can be referring to 'Professional advice and performance indicator'.

Table 7.15: Director 7 – Professional Advice and Performance Indicator Variables	Loadings
Board has separate and independent access to company secretary services	.707
Board approved the KPI of the company	.659

Table 7.15 shows variables and loadings for Director 7.

The eighth factor, Director 8 contain three variables which relates to board succession plan, board evaluation and orientation and education programme provided to board. The variables are shown in Table 7.16 below. Director 8 can be referring to 'Board succession plan, education and evaluation'.

Table 7.16: Director 8 – Succession Plan, Education and Evaluation Variables	Loadings
Company procedures for the succession planning for Board is clear, formal and transparent	.802
Newly appointed board are provided with an orientation & education programme	.785
All board members are evaluated at regular intervals	.677

Table 7.16 shows variables and loadings for Director 8.

The last factor, Director 9 comprises of two variables which referring to board independency and competencies in accounting and finance. Table 7.17 show the variables with its loading which ranging between .633 and .752. Director 9 can be referring to 'Board effectiveness and competencies'.

Table 7.17: Director 9 – Effectiveness and Competencies Variables	**Loadings**
More than 1/3 of the board are independent which encourages effective decision making	.752
Board has competencies in accounting & finance	.633

Table 7.17 shows variables and loadings for Director 9.

The above factors measure director's integrity. They were determined by board of directors and top management perceptions of the corporate governance indicators which aim to improve the quality of board, strengthening the board and ensuring the board discharge their roles and responsibilities effectively.

7.3.1.1.2 Reliability analysis

The internal consistency of each of the nine factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.18 indicate that all nine factors produced high alpha coefficients, ranging from 0.597 to 0.909. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the nine underlying factors.

Table 7.18: Reliability Statistics

Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Director 1	**0.904**	**6**
Director 2	**0.909**	**4**
Director 3	**0.870**	**5**
Director 4	**0.875**	**6**
Director 5	**0.880**	**2**
Director 6	**0.775**	**3**

Director 7	**0.597**	**2**
Director 8	**0.731**	**3**
Director 9	**0.601**	**2**

Table 7.18 shows the reliability alpha for Directors.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

7.3.1.2 Factor analysis – Directors' Remuneration

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 708.407, which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin (KMO) measure of sample adequacy had a highly acceptable value of 0.664 (Hair, Anderson et al. 1995).

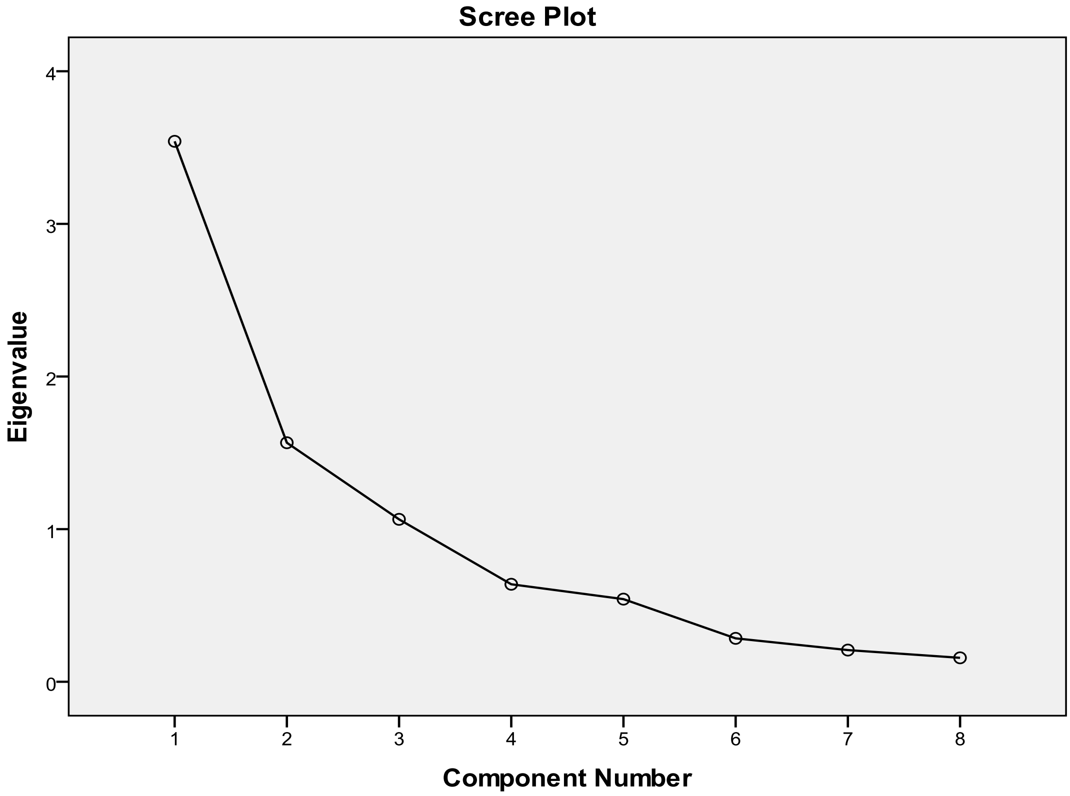
Table 7.19: KMO and Bartlett's Test – Directors' Remuneration

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.664
Bartlett's Test of Sphericity	Approx. Chi-Square	708.407
	Df	28
	Sig.	.000

Table 7.19 show Directors' Remuneration KMO and Bartlett's Test.

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.20.

Table 7.20: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. All three factors identified had a minimum eigenvalue of 1, and the values of the selected factors ranged from 1.064 to 3.541 accounting for 77.1% of the total variance explained. Further examination of the initial statistics reveals that the first factor, Directors' Remuneration 1 is predominant with an eigenvalue of 3.5, followed by other factors with eigenvalues ranging from 1.6 to 1.1.

Based on these results, it can be surmised that the factor Directors' Remuneration 1 was the most significant component in assessing board of director agreement on the procedures, level and make-up of remuneration in the company. This factor accounted for 44.3% of the total variance explained by all factors, further validating its strength.

Table 7.21: Total Variance Explained

Factors	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation
	Eigenvalues	Individual %	Cumulative %	Eigenvalues	Individual %	Cumulative %	Total
Directors' Remuneration 1	3.541	44.259	44.259	3.541	44.259	44.259	2.545
Directors' Remuneration 2	1.566	19.576	63.835	1.566	19.576	63.835	1.864
Directors' Remuneration 3	1.064	13.302	77.137	1.064	13.302	77.137	1.762

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.2.1 Factors loading and description – Directors' Remuneration

The factor analysis resulted in three factors with all variables from the original of 8 variables, which loaded heavily. Factor scores ranged between 0.643 and 0.942. Tables 7.22 to 7.24 show the factors identified as critical to directors' remuneration and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the three factors. The three factors comprised of 4, 2 and 2 variables respectively. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in four iterations.

The three factors resulted in the following factor labels; Directors' Remuneration 1, Directors' Remuneration 2 and Directors' Remuneration 3. The first factor, Directors' Remuneration 1 comprises four variables with significant loadings on this dimension.

Table 7.22 lists the variables and the factor loadings which ranging between .643 and .818. This factor addresses the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages. It also relates to how company consider pay and employment conditions within the industry. This will ensure directors are being offer attractive remuneration package that can retain them in the company. Directors' Remuneration 1 can be referring to 'Attractive and transparent remuneration procedure'.

Table 7.22: Directors' Remuneration 1 – Attractive and Transparent Procedure **Variables**	**Loadings**
Company takes into account pay and employment conditions within the industry	.818
The formation and role of the remuneration committee are transparent	.804
Company has a transparent procedure for developing and fixing the remuneration packages	.660
Level of remuneration is sufficient to attract and retain the directors needed to run the company successfully	.643

Table 7.22 shows variables and loadings for Directors' Remuneration 1.

The second factor, Directors' Remuneration 2 consists of two variables as shown in Table 7.23. Directors' Remuneration 2 variables address the formal procedure for developing and fixing the remuneration packages and the executive director's remuneration is based on individual performance. Directors' Remuneration 2 can be referring to 'Performance driven and formal remuneration procedure'.

Table 7.23: Directors' Remuneration 2 – Performance Driven and Formal Procedure **Variables**	**Loadings**
The executive director's remuneration is based on individual performance	.922
Company has a formal procedure for developing and fixing the remuneration packages	.707

Table 7.23 shows variables and loadings for Directors' Remuneration 2.

The third factor, Directors' Remuneration 3 contains two variables, which incorporate company ways in developing and fixing the remuneration packages for the non-executive director's by referring to experience, contribution and responsibilities. The company also uses long term incentives for rewarding their executive directors. The variables are shown in Table 7.24 and the factor loadings which ranging between .719 and .942. Directors' Remuneration 3 can be referring to 'Remuneration reward criteria'.

Table 7.24: Directors' Remuneration 3 – Reward Criteria Variables	**Loadings**
The non-executive director's remuneration is based on experience, contribution & responsibility	.942
Company uses long term incentives for rewarding their executive directors	.719

Table 7.24 shows variables and loadings for Directors' Remuneration 3.

The above factors serve as ways to measures boards of directors' agreement on the procedures, level and make-up of remuneration in the company. They were determined by board of directors and top management perceptions of the corporate governance indicators which relates to company process and procedures in rewarding their board of directors.

7.3.1.2.2 Reliability analysis

The internal consistency of each of the three factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.25 indicate that all three factors produced high alpha coefficients, ranging from 0.725 to 0.767. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the three underlying factors.

Table 7.25: Reliability Statistics		
Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Directors' Remuneration 1	**0.767**	**4**
Directors' Remuneration 2	**0.763**	**2**
Directors' Remuneration 3	**0.725**	**2**

Table 7.25 shows the reliability alpha for Directors' Remuneration.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

7.3.1.3 Factor analysis - Shareholders

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 2358.866, which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin (KMO) measure of sample adequacy had a highly acceptable value of 0.668 (Hair, Anderson et al. 1995).

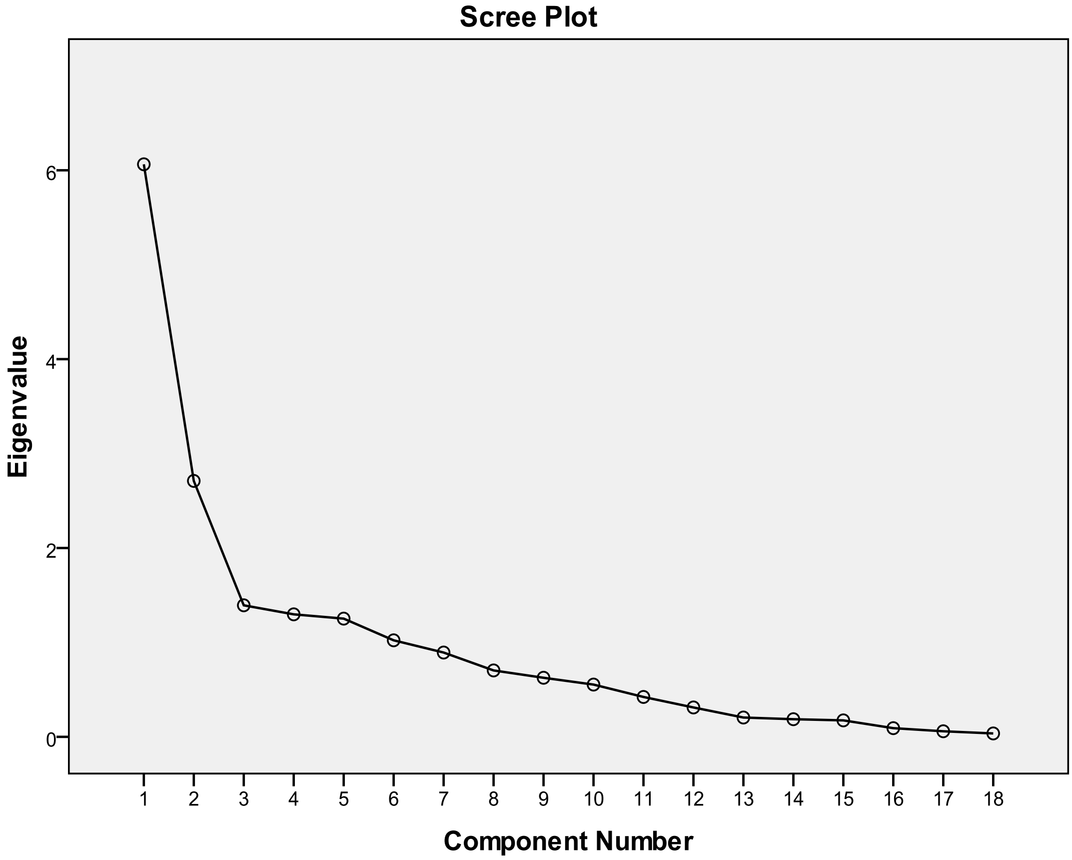
Table 7.26: KMO and Bartlett's Test – Shareholders

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.668
Bartlett's Test of Sphericity	Approx. Chi-Square	2358.866
	Df	153
	Sig.	.000

Table 7.26 shows Shareholders KMO and Bartlett's Test.

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.27.

Table 7.27: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. All four factors identified had a minimum eigenvalue of 1, and the values of the selected factors ranged from 1.297 to 6.063 accounting for 63.7% of the total variance explained. Further examination of the initial statistics reveals that the first factor, Shareholder 1 is predominant with an eigenvalue of 6.1, followed by other factors with eigenvalues ranging from 2.7 to 1.3.

Based on these results, it can be surmised that the factor Shareholders 1 was the most significant component in looking at communication aspects that exists between company and investors. This factor accounted for 33.7% of the total variance explained by all factors, further validating its strength.

Table 7.28: Total Variance Explained

Factors	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation
	Eigenvalues	Individual %	Cumulative %	Eigenvalues	Individual %	Cumulative %	Total
Shareholders 1	6.063	33.685	33.685	6.063	33.685	33.685	3.551
Shareholders 2	2.710	15.057	48.743	2.710	15.057	48.743	2.826
Shareholders 3	1.393	7.739	56.482	1.393	7.739	56.482	2.405
Shareholders 4	1.297	7.207	63.689	1.297	7.207	63.689	2.280

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.3.1 Factors loading and description - Shareholders

The factor analysis resulted in four factors with 13 variables from the original of 18 variables, which loaded heavily. Factor scores ranged between 0.682 and 0.919. Tables 7.29 to 7.32 show the factors identified as critical to shareholders and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the four factors. The four factors comprised of 4, 4, 3 and 2 variables respectively. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in seven iterations.

The four factors resulted in the following factor labels; Shareholders 1, Shareholders 2, Shareholders 3 and Shareholders 4.

The first factor, Shareholders 1 comprises four variables with significant loadings on this dimension. Table 7.29 lists the variables and the factor loadings which ranging between .791 and .919. This factor looks at aspects of company communication to the shareholder regarding dividend policy. It also addresses procedures to access company information and shareholders' approval for related party transaction. Shareholders 1 can be referring to 'Dividend policy information and related party transaction approval'.

Table 7.29: Shareholders 1 - Dividend Policy and Related Party Transaction **Variables**	**Loadings**
The company has a clear and transparent dividend policy	.919
The company provides sufficient information on the dividend policy to the shareholders	.884
The company has a clearly defined procedures on shareholders accessibility to company information	.844
The company acquires shareholders approval for related party transaction	.791

Table 7.29 shows variables and loadings for Shareholders 1.

The second factor, Shareholders 2 comprises four variables with significant loadings on this dimension. Table 7.30 lists the variables and the factor loadings which ranging between .682 and .853. This factor is referring to the procedures and conduct of AGM. It also addresses company communication with shareholders through annual reports. Shareholders 2 can be referring to 'AGM matter and annual report'.

Table 7.30: Shareholders 2 – AGM and Annual Report **Variables**	**Loadings**
The company holds the AGM at least every 15 months	.853
The company has clearly defined procedures on voting at AGM	.753
Company maintained regular and effective communication with shareholders through annual reports	.715
The company proxies are allowed to attend, speak & vote at AGM	.682

Table 7.30 shows variables and loadings for Shareholders 2.

The third factor, Shareholders 3 contains three variables, which addresses the voting procedures at Extraordinary General Meeting (EGM), communicate with the shareholders regarding their proxies, rights and privileges. It also includes the use of announcements in maintaining regular and effective communication with shareholders. The variables are shown in Table 7.31 and the factor loadings which ranging between .692 and .847. Shareholders 3 can be referring to 'EGM matter and announcement'.

Table 7.31: Shareholders 3 – EGM and Announcement Variables	**Loadings**
The company has sufficient and clearly explained information on voting procedures at EGM	.847
Company maintained regular and effective communication with shareholders through announcements	.768
The company communicates the shareholders' proxies, rights & privileges to the shareholder	.692

Table 7.31 shows variables and loadings for Shareholders 3.

The fourth factor, shareholders 4 consists of two variables. It incorporates information about Annual General Meeting (AGM) function. The company used the AGM as a platform to communicate with their private investor where they are encouraged to participate during the meeting. Shareholders 4 can be referring to 'AGM function'.

Table 7.32: Shareholders 4 – AGM Function Variables	**Loadings**
The company encourages private investors to participate in the AGM	.859
The AGM is used by the company to communicate with their private investors	.774

Table 7.32 shows variables and loadings for Shareholders 4.

The above factors look at aspects of communication that exists between companies and investors. They were determined by board of directors and top management perceptions of the corporate governance indicators which reflects the company relationship with their investors.

7.3.1.3.2 Reliability analysis

The internal consistency of each of the four factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.33 indicate that all four factors produced high alpha coefficients, ranging from 0.765 to 0.904. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the four underlying factors.

Table 7.33: Reliability Statistics

Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Shareholders 1	**0.904**	**4**
Shareholders 2	**0.816**	**4**
Shareholders 3	**0.765**	**3**
Shareholders 4	**0.837**	**2**

Table 7.33 shows the reliability alpha for Shareholders.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

7.3.1.4 Factor analysis - Accountability & Audit

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 2798.383, which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin

(KMO) measure of sample adequacy had a highly acceptable value of 0.845 (Hair, Anderson et al. 1995).

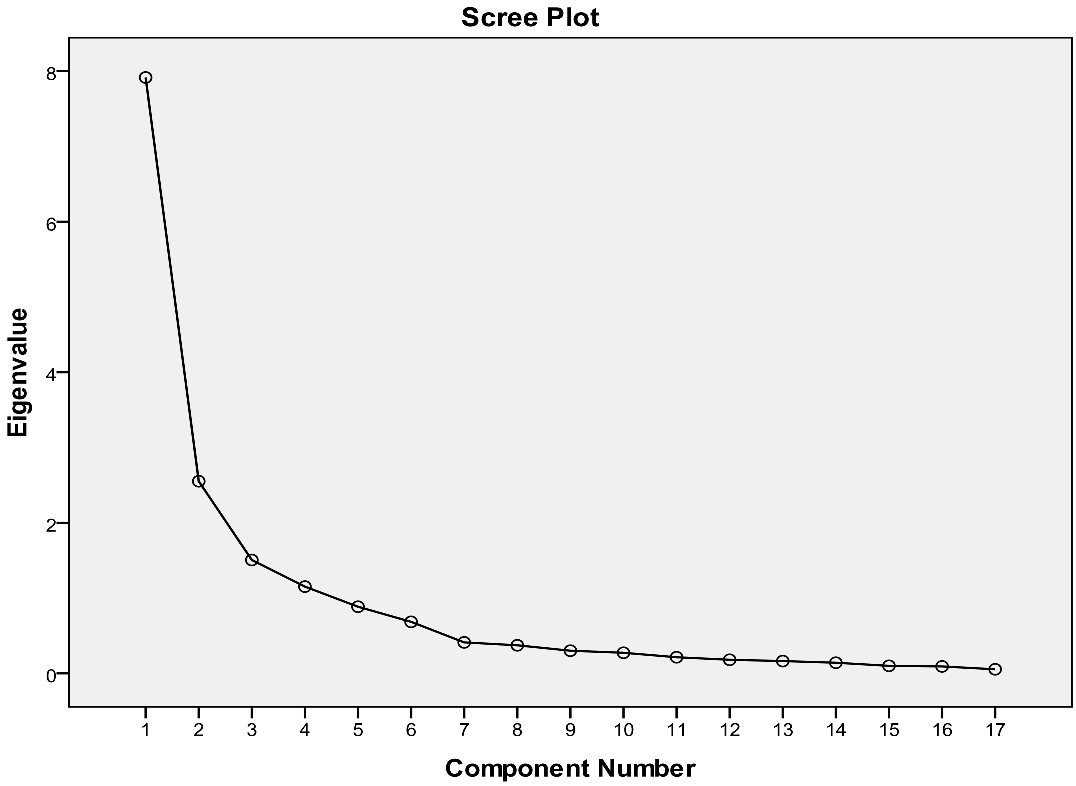
Table 7.34: KMO and Bartlett's Test - Accountability & Audit

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.845
Bartlett's Test of Sphericity	Approx. Chi-Square	2798.383
	Df	136
	Sig.	.000

Table 7.34 shows Accountability & Audit KMO and Bartlett's Test.

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.35.

Table 7.35: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. All four factors identified had a minimum eigenvalue of 1, and the values of the selected factors ranged from 1.152 to 7.916 accounting for 77.2% of the total variance explained. Further examination of the initial statistics reveals that the first factor, Accountability & Audit 1 is predominant with an eigenvalue of 7.9, followed by other factors with eigenvalues ranging from 2.6 to 1.2.

Based on these results, it can be summarized that the factor Accountability & Audit 1 was the most significant component in addressing issues about board responsibility and accountability to safeguard shareholders' investment, company assets and maintain a sound internal control system. They were also responsible to make an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. The factor also addresses the important of board to received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company. This factor accounted for 46.6% of the total variance explained by all factors, further validating its strength.

Table 7.36: Total Variance Explained

	Initial Eigenvalues			**Extraction Sums of Squared Loadings**			**Rotation**
Factors	**Eigenvalues**	**Individual %**	**Cumulative %**	**Eigenvalues**	**Individual %**	**Cumulative %**	**Total**
Accountability & Audit 1	7.916	46.564	46.564	7.916	46.564	46.564	5.703
Accountability & Audit 2	2.552	15.013	61.577	2.552	15.013	61.577	2.652
Accountability & Audit 3	1.506	8.859	70.437	1.506	8.859	70.437	2.398
Accountability & Audit 4	1.152	6.779	77.216	1.152	6.779	77.216	2.374

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.4.1 Factors loading and description – Accountability & Audit

The factor analysis resulted in four factors with all variables from the original of 17 variables, which loaded heavily. Factor scores ranged between 0.601 and 0.930. Tables 7.37 to 7.40 show the factors identified as critical to accountability and audit and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the four factors. The four factors comprised of 7, 3, 4 and 3 variables respectively. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in eight iterations.

The four factors resulted in the following factor labels; Accountability & Audit 1, Accountability & Audit 2, Accountability & Audit 3 and Accountability & Audit 4.

The first factor, Accountability & Audit 1 comprises seven variables with significant loadings on this dimension. Table 7.37 lists the variables and the factor loadings which ranging between .613 and .930. This factor addresses issues about board understanding of their responsibilities to safeguard shareholders' investment, company assets and maintain a sound internal control system. They were also responsible to make an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. In order for the board to perform their duty effectively, they received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company. Accountability & Audit 1 can be referring to 'Internal control and information received'.

Table 7.37: Accountability & Audit 1 – Internal Control and Information Variables	Loadings
The board has a clear understanding their responsibilities to safeguard shareholders' investment & company assets	.930
Board makes an assessment on the internal control status and the control measure takes	.922
Board has a clear understanding of their responsibilities in maintaining a sound system of company internal control	.910
Company has an annual review on the material internal control; financial; operational; compliance control & risk	.893
Board receives timely and quality information on the financial performance of the company	.879
Board receives timely information about the third party related transactions	.640
Board receives timely and quality information on the prospects and opportunities of the company	.613

Table 7.37 shows variables and loadings for Accountability & Audit 1.

The second factor, Accountability & Audit 2 comprises three variables with significant loadings on this dimension. Table 7.38 lists the variables and the factor loadings which ranging between .696 and .859. This factor was referring to the release of the audited report to public within 120 days or 4 months of the balance day adjustment. It also highlights company transparent relationship with the external auditor and the audit committee are financially literate. Accountability & Audit 2 can be referring to 'Report release and auditing'.

Table 7.38: Accountability & Audit 2 – Report Release and Auditing Variables	Loadings
The board releases the audited report to the public within 120 day / 4 months of the balance sheet day	.859
The company has transparent relationship with the external auditor	.821
The Audit committee members are financially literate	.696

Table 7.38: shows variables and loadings for Accountability & Audit 2.

The third factor, Accountability & Audit 3 contains four variables, which refers to company having a clear written term of reference for the audit committee. It also mentions about the composition of audit committee, which were fully non executives' directors and the head of internal audit reports directly to the audit committee. Annually audit committee assess the adequacy of the internal audit process. The variables were shown in Table 7.39 and the factor loadings which ranging between .642 and .730. Accountability & Audit 3 can be referring to 'Audit committee matter'.

Table 7.39: Accountability & Audit 3 – Audit Committee Variables	**Loadings**
The company has a clear written term of reference for the audit committee	.730
The Audit committee is composed of fully non-executives directors	.703
Audit committee assess adequacy of the internal audit process annually	.646
The head of internal audit reports directly to the audit committee	.642

Table 7.39 shows variables and loadings for Accountability & Audit 3.

The fourth factor, Accountability & Audit 4 consists of three variables. It incorporates information about the continuous engagement between the audit committee chairman and external auditors. It also includes information about the frequent meetings between audit committee and the external auditor without executive board members present. Lastly, qualitative information about company performance was provided to board on time. The variables are shown in Table 7.40. Accountability & Audit 4 can be referred to 'Board, audit committee and external auditor'.

Table 7.40: Accountability & Audit 4 – Board, Audit Committee and External Auditor Variables	Loadings
There is a continuous engagement between the chairman of the audit committee and the external auditors	.877
Frequent meetings are held between the Audit committee and the external auditor without executive board members present	.659
Board receives timely and quality information on the qualitative performance of the company	.601

Table 7.40 shows variables and loadings for Accountability & Audit 4.

The above factors related to board responsibility and accountability towards the company shareholder. It also includes information about the financial reporting, quality information received on time by board, company internal control and relationship with auditors.

7.3.1.4.2 Reliability analysis

The internal consistency of each of the three factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.41 indicate that all four factors produced high alpha coefficients, ranging from .755 to 0.945. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the four underlying factors.

Table 7.41: Reliability Statistics Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Accountability & Audit 1	**0.945**	**7**
Accountability & Audit 2	**0.810**	**3**
Accountability & Audit 3	**0.831**	**4**
Accountability & Audit 4	**0.755**	**3**

Table 7.41 shows the reliability alpha for Accountability & Audit.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

7.3.1.5 Factors analysis - Business Ethics & Responsibility

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 766.824 which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin (KMO) measure of sample adequacy had a highly acceptable value of 0.824 (Hair, Anderson et al. 1995).

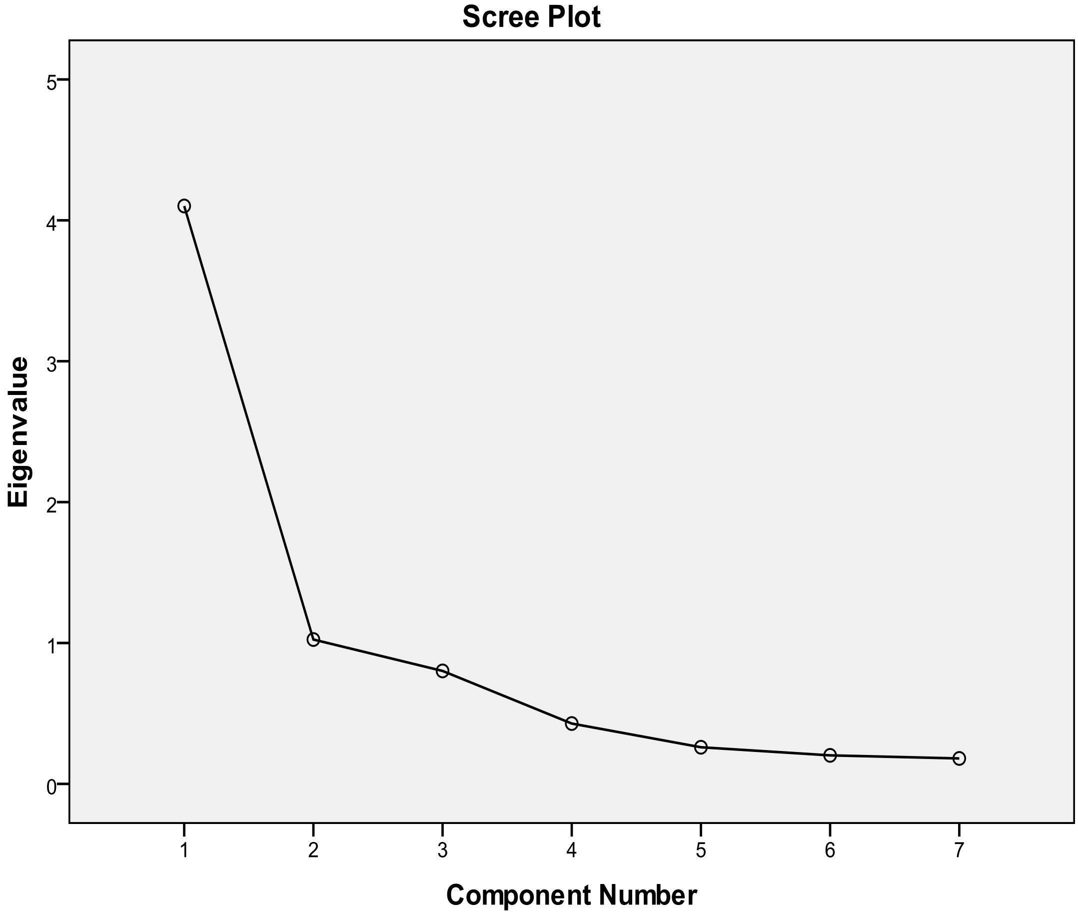
Table 7.42: KMO and Bartlett's Test - Business Ethics & Responsibility

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.824
Bartlett's Test of Sphericity	Approx. Chi-Square	766.824
	Df	21
	Sig.	.000

Table 7.42 show Business Ethics & Responsibility KMO and Bartlett's Test

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.43.

Table 7.43: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. The factor identified for business ethics and responsibility had a minimum eigenvalue of 1, and the value of the factor is 4.102. This factor accounted for 58.6% of the total variance explained by other factor, validating its strength. Based on these results, it can be summarized that these factor, Business Ethics & Responsibility 1 was significant component in addressing issues about board responsibility in ensuring company management and employees uphold the highest level of ethical values and responsibilities. This was by ensuring company has a policy implicating such responsibilities.

Table 7.44: Total Variance Explained

Factors	Initial Eigenvalues: Eigenvalues	Initial Eigenvalues: Individual %	Initial Eigenvalues: Cumulative %	Extraction Sums of Squared Loadings: Eigenvalues	Extraction Sums of Squared Loadings: Individual %	Extraction Sums of Squared Loadings: Cumulative %	Rotation Total
Business Ethics & Responsibility 1	4.102	58.599	58.599	4.102	58.599	58.599	4.049

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.5.1 Factors loading and description – Business Ethics & Responsibility

The factor analysis resulted in one factor with six variables from the original of 7 variables, which loaded heavily. Factor scores ranged between 0.753 and 0.870. Tables 7.45 show the factor identified as critical to Business ethics and responsibility and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the factor. The factor comprised of 6 variables. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in three iterations.

The factor resulted in the following factor label; Business Ethics & Responsibility 1. The factor, Business Ethics & Responsibility 1 comprises six variables with significant loadings on this dimension. Table 7.45 lists the variables and the factor loadings which ranging between .753 and .870. This factor relate to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the board must ensure that the company has a policy implicating such responsibilities. Business Ethics & Responsibility 1 can be referring to 'Code of ethics and whistle blower policy'.

Table 7.45: Business Ethics & Responsibility 1 – Code of Ethics and Whistle Blower Policy **Variables**	**Loadings**
The company has a detailed and clear staff behaviour expectation	.870
The company has a formal and transparent complaint procedures	.857
The company closely monitored the implementation of the code of ethics	.832
There is a continuous effort in enhancing quality related activities in the organization	.805
The company established a code of ethics	.803
The company has a formal and transparent procedure for staff disciplinary matters	.753

Table 7.45 shows variables and loadings for Business Ethics & Responsibility 1.

The above factors related to the responsibility of the board in ensuring the company management and employees have the highest level of ethical values and responsibilities. The board were also responsible to ensure the company has a policy implicating such responsibilities.

7.3.1.5.2 Reliability analysis

The internal consistency of each of the three factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.46 indicate that the factor produced high alpha coefficients, .905. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the underlying factors.

Table 7.46: Reliability Statistics

Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Business Ethics & Responsibility 1	**0.905**	**6**

Table 7.46 shows the reliability alpha for Business Ethics & Responsibility.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

7.3.1.6 Factors analysis – Intellectual Capital

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 1598.640, which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin (KMO) measure of sample adequacy had a highly acceptable value of 0.835 (Hair, Anderson et al. 1995).

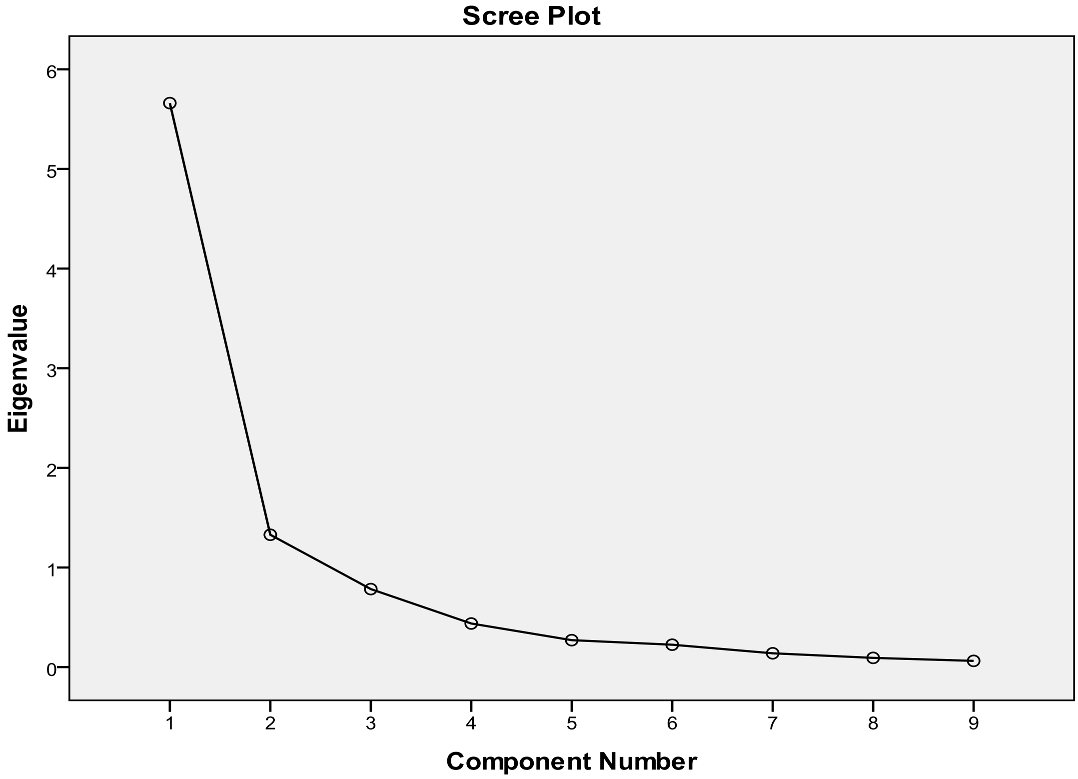
Table 7.47: KMO and Bartlett's Test - Intellectual Capital

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.835
Bartlett's Test of Sphericity	Approx. Chi-Square	1598.640
	Df	36
	Sig.	.000

Table 7.47 show Intellectual Capital KMO and Bartlett's Test.

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.48.

Table 7.48: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. All two factors identified had a minimum eigenvalue of 1, and the values of the selected factors ranged from 1.328 to 5.661 accounting for 77.7% of the total variance explained. Further examination of the initial statistics reveals that the first factor, Intellectual Capital 1 was predominant with an eigenvalue of 5.661, followed by second factor with eigenvalues of 1.328.

Based on these results, it can be summarized that the factor Intellectual Capital 1 was the most significant component in addressing issues referring to board appreciation and reorganization of intellectual capital as one of the most important assets in the company. This factor accounted for 62.9% of the total variance explained by all factors, further validating its strength.

Table 7.49: Total Variance Explained

Factors	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation
	Eigenvalues	Individual %	Cumulative %	Eigenvalues	Individual %	Cumulative %	Total
Intellectual Capital 1	5.661	62.896	62.896	5.661	62.896	62.896	3.735
Intellectual Capital 2	1.328	14.760	77.656	1.328	14.760	77.656	3.254

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.6.1 Factors loading and description – Intellectual Capital

The factor analysis resulted in two factors with all variables from the original of 9 variables, which loaded heavily. Factor scores ranged between 0.674 and 0.962. Tables 7.50 to 7.51 show the factors identified as critical to intellectual capital and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the two factors. The two factors comprised of 5 and 4 variables respectively. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in three iterations.

The two factors resulted in the following factor labels; Intellectual Capital 1 and Intellectual Capital 2.

The first factor, Intellectual Capital 1 comprises five variables with significant loadings on this dimension. Table 7.50 lists the variables and the factor loadings which ranging between .674 and .962. This factor addresses issues about how board recognizes intellectual capital as an important asset to the company. This was by ensuring company established procedure in identifying the present and potential financial value of intellectual capital; established procedures identifying any possible threats to present intellectual capital efficiency; established procedures for identifying renewing and developing intellectual capital; approves activities which promote knowledge workers and staff promotional policy is formal and transparent. Intellectual Capital 1 can be referring to ‘Intellectual capital recognition’.

Table 7.50: Intellectual Capital 1 – Recognition Variables	**Loadings**
The company has established procedure in identifying the present and potential financial value of intellectual Capital	.962
The company established procedures identifying any possible threats to present intellectual capital efficiency	.894
The board approves the company activities which promote knowledge workers	.821
The company has established procedures for identifying renewing and developing intellectual capital	.764
The company has a formal and transparent staff promotional policy	.674

Table 7.50 shows variables and loadings for Intellectual Capital 1.

The second factor, Intellectual Capital 2 comprises four variables with significant loadings on this dimension. Table 7.51 lists the variables and the factor loadings which ranging between .738 and .846. This factor was referring to how board recognize the important of intellectual capital by including it in the company strategic planning agenda; approves the allocation of a large amount of expenditure to the employees or staff training and development; approves the company investment in IT related assets and company has a detail and formal staff health or safety measures.

Intellectual Capital 2 can be referring to 'Board appreciation and implementation of intellectual capital'.

Table 7.51: Intellectual Capital 2 – Appreciation and Implementation **Variables**	**Loadings**
Board includes intellectual capital in the company strategic planning agenda	.846
The board approves the allocation of a large amount of expenditure to the employees/staff training and development	.845
The board approves the company investment in IT related assets	.775
The company has detailed and formal staff health/safety measures	.738

Table 7.51 shows variables and loadings for Intellectual Capital 2.

The above factors related to how board recognize intellectual capital as one of the important assets in the company.

7.3.1.6.2 Reliability analysis

The internal consistency of each of the two factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.52 indicate that all two factors produced high alpha coefficients, ranging from .866 to 0.934. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the two underlying factors.

Table 7.52: Reliability Statistics

Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Intellectual Capital 1	**0.934**	**5**
Intellectual Capital 2	**0.866**	**4**

Table 7.52 shows the reliability alpha for Intellectual Capital.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

7.3.1.7 Factors analysis - Disclosure

The factors were identified using the Keiser-Meyer-Olkin (KMO), the scree plot and the variance explained (Dunteman 1989). All variables were tested for inter-item reliability and consistency of the questionnaire using Cronbach alpha. The overall significance of the correlation matrix was significant with a p-value of < 0.01, and a Bartlett Test of Sphericity value of 2077.954, which indicated that the data matrix had sufficient correlation to conduct factor analysis. The overall Kaiser-Meyer-Olkin (KMO) measure of sample adequacy had a highly acceptable value of 0.737 (Hair, Anderson et al. 1995).

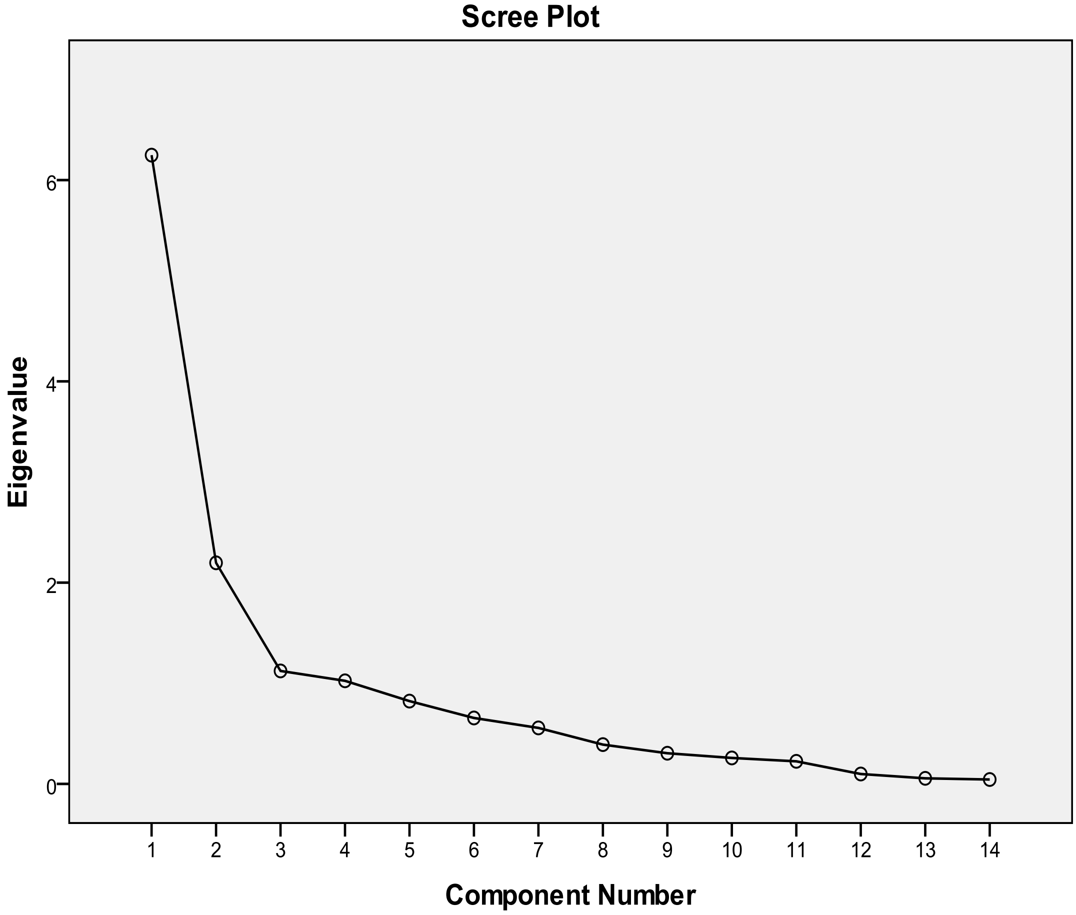
Table 7.53: KMO and Bartlett's Test – Disclosure

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.737
Bartlett's Test of Sphericity	Approx. Chi-Square	2077.954
	Df	91
	Sig.	.000

Table 7.53 show Disclosure KMO AND Bartlett's Test.

The second criterion used to determine the number of factors was the 'scree plot' results as shown in Table 7.54.

Table 7.54: Scree Plot of the results



The selection of factors was based on eigenvalues above 1, and the total variance explained by these values. All four factors identified had a minimum eigenvalue of 1, and the values of the selected factors ranged from 1.024 to 6.248 accounting for 75.7% of the total variance explained. Further examination of the initial statistics reveals that the first factor, Disclosure 1 was predominant with an eigenvalue of 6.2, followed by other factors with eigenvalues ranging from 2.2 to 1.0.

Based on these results, it can be summarized that the factor Disclosure 1 was the most significant component in addressing issues about disclosure. This factor accounted for 44.6% of the total variance explained by all factors, further validating its strength.

Table 7.55: Total Variance Explained							
	Initial Eigenvalues			**Extraction Sums of Squared Loadings**			**Rotation**
Factors	**Eigenvalues**	**Individual %**	**Cumulative %**	**Eigenvalues**	**Individual %**	**Cumulative %**	**Total**
Disclosure 1	6.248	44.627	44.627	6.248	44.627	44.627	3.368
Disclosure 2	2.197	15.692	60.319	2.197	15.692	60.319	2.607
Disclosure 3	1.122	8.018	68.337	1.122	8.018	68.337	2.525
Disclosure 4	1.024	7.317	75.654	1.024	7.317	75.654	2.091

Extraction Method: Principal Component Analysis.

The third criterion was the factor loadings, which indicated the high correlation of variables with the respective factors.

7.3.1.7.1 Factors loading and description – Disclosure

The factor analysis resulted in four factors with all variables from the original of 14 variables, which loaded heavily. Factor scores ranged between 0.518 and 0.972. Tables 7.56 to 7.59 show the factors identified as critical to disclosure and their respective loadings. The higher loadings signalled the correlation of the variables with the factors on which they loaded. It also indicated that the variance of the original values was well captured by the four factors. The four factors comprised of 5, 4, 3 and 2 variables respectively. The factors were extracted using the Principal Component Analysis and Varimax rotation method with Keiser normalization. The rotation converged in thirteen iterations.

The four factors resulted in the following factor labels; Disclosure 1, Disclosure 2, Disclosure 3 and Disclosure 4. The first factor, Disclosure 1 comprises five variables with significant loadings on this dimension. Table 7.56 lists the variables and the factor loadings which ranging between .518 and .769. This factor addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship. Disclosure 1 can be referring to 'Auditing, audited report and board responsibility'.

Table 7.56: Disclosure 1 – Auditing, Audited Report and Board Responsibility **Variables**	**Loadings**
Sufficient information on how Audit committee assess the adequacy of the internal audit annually by reviewing scope, result cost	.769
Sufficient information on the company relationship with external auditor	.764
Board responsible to ensure the company releases the audited report to the public within 120 days/ 4 months of the balance sheet day	.750
Sufficient information on board understanding their responsibilities in maintaining sound system of company internal control	.625
The company provides full disclosure of the independent director's responsibility and relationship	.518

Table 7.56 shows variables and loadings for Disclosure 1.

The second factor, Disclosure 2 comprises four variables with significant loadings on this dimension. Table 7.57 lists the variables and the factor loadings which ranging between .583 and .798. Disclosure 2 can be referring to 'Internal control, AGM notice and lead control'.

Table 7.57: Disclosure 2 – Internal Control, AGM Notice and Lead Control **Variables**	**Loadings**
Sufficient information on board understanding to safeguard shareholder investment and company asset is being disclose	.798
Company discloses detail and sufficient information about special business in the AGM notice & full explanation of the effects	.730

Sufficient information on how board makes an assessment on internal control status and measure	.588
The company discloses the issues of lead control in the company	.583

Table 7.57 shows variables and loadings for Disclosure 2.

The third factor, Disclosure 3 contains three variables. The variables were shown in Table 7.58 and the factor loadings which ranging between .666 and .790. Disclosure 3 can be referring to 'Board profile, third party transaction and remuneration committee'.

Table 7.58: Disclosure 3 – Board Profile, Third Party Transaction and Remuneration Committee Variables	**Loadings**
The company discloses detail & sufficient information about independent director's calibre, credibility, skill and experience	.790
Sufficient information about the third party related transactions	.747
Sufficient and transparent information on the formation and role of remuneration committee disclosed in the annual report	.666

Table 7.58 shows variables and loadings for Disclosure 3.

The fourth factor, Disclosure 4 consists of two variables. It incorporates information about the remuneration, other benefit and additional contribution received by board. The variables were shown in Table 7.59. Disclosure 4 can be referred to as 'Board remuneration and benefit received'.

Table 7.59: Disclosure 4 – Board Remuneration and Benefit Variables	**Loadings**
Company disclose detail and sufficient information of remuneration and other benefit received by individual directors	.972
Company discloses detail and sufficient information of additional contribution received by non-executive directors	.951

Table 7.59 shows variables and loadings for Disclosure 4.

The above factors related to corporate governance reporting. The board of directors and top management perceptions regarding the importance of disclosure were gauged.

This factors aim to ensure transparent reporting and disclosure take place in the company.

7.3.1.7.2 Reliability analysis

The internal consistency of each of the three factor indicators was measured using the Cronbach's alpha. The results presented in Table 7.60 indicate that all four factors produced high alpha coefficients, ranging from .784 to 0.967. These alpha values exceeded the recommended level of 0.50 by Heir et al (1995) and confirmed the reliability of the three underlying factors.

Table 7.60: Reliability Statistics

Factors	Cronbach's Alpha Based on Standardized Items	N of Items
Disclosure 1	**0.865**	**5**
Disclosure 2	**0.784**	**4**
Disclosure 3	**0.790**	**3**
Disclosure 4	**0.967**	**2**

Table 7.60 shows the reliability alpha for Accountability & Audit.

The above results show a significant correlation between variables appropriate for factor analysis. The assumptions underlying factor analysis have not been violated.

The last section of the chapter presents the respondents perceptions and opinions about their company corporate governance disclosure practices. It was an insight view on how company adopt and practice the Malaysian code on corporate governance (MCCG).

7.4 Corporate Governance Survey

7.4.1 Respondents perceptions and opinions on corporate governance practice

This section presents the survey responses from the company board of directors and top management. These were their perceptions and opinions regarding the corporate governance practices in the government link companies. From the preliminary study, the respondents were convinced that corporate integrity was a result of good corporate governance practice in the company. Since company were ultimately controlled and run by board, their perceptions and opinions would give an insight perspective about the company corporate governance practice. Factors identified from the multivariate analyses were used to present the findings.

7.4.2 Descriptive statistics

Factors identified from the seven corporate governance indicators were referred in presenting the corporate governance survey findings. The study uses a 5-point Likert Scale to measure the factor; a "5-point" score denotes the maximum level of agreement and acceptance of the gauged factor for corporate governance practices, a "3-point" score denotes neutral whilst a "1-point" score represents the maximum level of disagreement and no compliance of the gauged factor for corporate governance practice. The following reporting indicates the respondent's perceptions and opinions on corporate governance practices in their company. The percentages presented in the table indicate the respondent agreement with the statement list in each of the factor.

7.4.2.1 Directors

The first indicator relate to the role of the Board of Directors (BOD). It covers five important aspects namely Board Leadership & Control, Board Balance, Board's Right to Information, Appointment of Directors and Board Re-election**.** The factor analysis resulted in nine factors.

The first factor, Director 1 addresses the board roles, responsibility, authority, competencies, training and participation in decision making process. The board of director and top management felt that board roles and responsibilities was an important factor which scores ranged between 97.3% and 99.5%. This factor was crucial in ensuring the board discharge their roles and responsibilities effectively.

Table 7.61: Director 1-Roles and Responsibilities Variables	**Survey (%)**
Clear understanding of the separation of responsibilities between chairman & CEO	99.4
Board are aware & informed about training program available to them	97.3
The number of Non-Executive participation on the board encourages effective decision	97.8
Board has competencies in business & management experience	99.5
Clear understanding of role & responsibilities	98.91
Company board committee has a clear understanding of their authority and report to the board	99.5

Table 7.61 shows survey responses for Director 1.

The second factor, Director 2 consists of four variables. Director 2 variables address the procedures for board election/ re-election, appointment and re-appointment, Nomination committee consideration for board criteria and board capacity to access to professional advisors. The respondent felt that board selection and appointment was an important factor in ensuring the quality of the board.

Table 7.62: Director 2-Selection and Appointment Variables	Survey (%)
Procedures for election and appointment of the board members are clear, formal and transparent	96.2
The company procedures for the re-election and re appointment are clear, formal & transparent	96.1
The nomination committee considered the following criteria as director; calibre, credibility, skill, knowledge, expertise, professionalism, experience and integrity	94.6
Board has capacity to have independent access to professional advisors	96.7

Table 7.62 shows survey responses for Director 2.

The third factor, Director 3 contains five variables, which incorporate board competencies in industry knowledge and customer based experience, timely information received from the company, regular meeting with due notice and detailed agenda for board meeting. The board of director and top management felt that board meeting, knowledgeable board and board receiving timely and quality information from the company is an important factor. The factor score ranged between 77.6% and 98.9%.

Table 7.63: Director 3-Meeting and Information Variables	Survey (%)
Board has regular meetings with due notice of issues to be discussed without management present	77.6
Board has competencies in industry knowledge	98.9
Board receives timely information and detailed agenda for board of directors meetings	98.9
Board has competencies in customer based experience/knowledge	95.1
Board is supplied with timely and quality information from company to enable them to discharge their duties	93.5

Table 7.63 shows survey responses for Director 3.

The fourth factor, Director 4 consists of six variables related to the role of remuneration and nomination committee, board has minority shareholder representative and the independent of Chairman and CEO. The board and top management view this factor as one of the important factor since it addresses the board committee function and the independency of chairman and CEO. In contrast the respondents view the minority shareholder representative among the board as less important as the other variable.

Table 7.64: Director 4-Committee Function, Minority Shareholder and Independency Variables	**Survey (%)**
The remuneration committee sets appropriate remuneration for the board members	92.9
The remuneration committee sets appropriate remuneration for the CEO	95.1
The nomination committee actively finds and nominates new directors when needed	84.1
Board has minority shareholder representation	68.3
The nomination committee documents all assessments and evaluations carried out in discharge of its function	89.1
Chairman and CEO are independent of each other	97.3

Table 7.64 shows survey responses for Director 4.

The fifth factor, Director 5 consists of two variables that relates to company vision, mission and strategic goal. The respondent felt board understanding of the company vision, mission and strategic goals were crucial. The board also need to ensure company activities were in-line with the vision, mission and strategic goals.

Table 7.65: Director 5-Vision Variables	**Survey (%)**
Activities of the company agree with the vision, mission and strategic goals	99.5
Board have a clear understanding of the company vision, mission and strategic goals	99.5

Table 7.65 shows survey responses for Director 5.

The sixth factor, Director 6 consists of three variables related to board schedules for making decisions, board reviews of the company strategic goals and company procedures for succession planning for management team. This factor was seen as an important factor because it dealt with company operational procedure.

Table 7.66: Director 6-Operational Procedure Variables	**Survey (%)**
Board has a formal schedule of matters specifically reserved for its decisions	92.9
Company procedures for the succession planning for Mgt team is clear, formal and transparent	81.4
Board regularly reviews the company strategic goals	92.9

Table 7.66 shows survey responses for Director 6.

The seventh factor, Director 7 consists of two variables related to board access to company secretary and board approval on company Key Performance indicators (KPI). The respondent felt that, it was important for the board to have access to the company secretary in order to seek professional advice and approving the company KPI.

Table 7.67: Director 7-Professional Advice and Performance Indicator Variables	**Survey (%)**
Board has separate and independent access to company secretary services	94.5
Board approved the KPI of the company	99.4

Table 7.67 shows survey responses for Director 7.

The eighth factor, Director 8 contain three variables which relates to board succession plan, board evaluation and orientation and education programme provided to board. This factor was seen less important by the respondent as the factor scores ranged between 63.9% and 72.7%.

Table 7.68: Director 8-Succession Plan, Education and Evaluation Variables	Survey (%)
Company procedures for the succession planning for Board is clear, formal and transparent	63.9
Newly appointed board are provided with an orientation & education programme	70.5
All board members are evaluated at regular intervals	72.7

Table 7.68 shows survey responses for Director 8.

The last factor, Director 9 comprises of two variables which referring to board independency and competencies in accounting and finance. Respondent felt that effective decision making can be promoted and encouraged by having more than 1/3 of independent board member and board competencies in accounting and finance.

Table 7.69: Director 9-Effectiveness and Competencies Variables	Survey (%)
More than 1/3 of the board are independent which encourages effective decision making	97.8
Board has competencies in accounting & finance	98.9

Table 7.69 shows survey responses for Director 9.

The above factors measure how company govern their directors. The factors identified above aim to improve the quality of board, strengthening the board and ensuring the board discharge their roles and responsibilities effectively.

7.4.2.2 Directors' Remuneration

The second indicator relates to the 'Directors' Remuneration'. It includes the Level & Make-up of Remuneration, Procedure and Disclosure. The factor analysis resulted in three factors. The first factor, Directors' Remuneration 1 comprises four variables. The respondents perceive this factor as an important factor since it addresses the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages. The factor also relates to how company consider pay and employment conditions within the industry. This will ensure directors were being offer attractive remuneration package that can retain them in the company.

Table 7.70: Directors' Remuneration 1-Attractive and Transparent Procedure **Variables**	**Survey (%)**
Company takes into account pay and employment conditions within the industry	95.7
The formation and role of the remuneration committee are transparent	94.6
Company has a transparent procedure for developing and fixing the remuneration packages	65.0
Level of remuneration is sufficient to attract and retain the directors needed to run the company successfully	76.0

Table 7.70 shows survey responses for Directors' Remuneration 1.

The second factor, Directors' Remuneration 2 consists of two variables. Directors' Remuneration 2 variables address the formal procedure for developing and fixing the remuneration packages and the executive director's remuneration was based on individual performance. The board and top management agreed and perceived the factor as crucial in the process of developing and fixing directors' remuneration packages.

Table 7.71:Directors' Remuneration 2-Performance Driven and Formal Procedure **Variables**	**Survey (%)**
The executive director's remuneration is based on individual performance	87.4
Company has a formal procedure for developing and fixing the remuneration packages	89.1

Table 7.71 shows survey responses for Directors' Remuneration 2.

The third factor, Directors' Remuneration 3 contains two variables, which incorporate company's ways in developing and fixing the remuneration packages for the non-executive director’s by referring to experience, contribution and responsibilities. The company also uses long term incentives for rewarding their executive directors. The respondents felt that the reward criteria were crucial to attract and retain directors in the company.

Table 7.72:Directors’ Remuneration 3-Reward Criteria Variables	**Survey (%)**
The non-executives director’s remuneration is based on experience, contribution & responsibilities	71.5
Company uses long term incentives for rewarding their executive directors	80.4

Table 7.72 shows survey responses for Directors’ Remuneration 3.

The above factors measured board of director agreement on the procedures, level and make-up of remuneration in the company. They were determined by board of directors and top management perceptions and opinions of the corporate governance indicators which relates to company procedures in rewarding their board of directors.

7.4.2.3 Shareholders

The third indicator looks at dialogue between companies and investors and also the AGM. This was referring to communication aspect that exists between companies and investors. The factor analysis resulted in four factors.

The first factor, Shareholders 1 comprises four variables. The board and top management agreed with the importance of the factor as it addresses how company communicate their dividend policy to the shareholder. The factor also includes procedures on how shareholders can access company information and shareholders’ approval for related party transaction.

Table 7.73: Shareholders 1-Dividend Policy and Related Party Transaction Variables	Survey (%)
The company has a clear and transparent dividend policy	73.3
The company provides sufficient information on the dividend policy to the shareholders	66.7
The company has a clearly defined procedures on shareholders accessibility to company information	92.9
The company acquires shareholders approval for related party transaction	92.9

Table 7.73 shows survey responses for Shareholders 1.

The second factor, Shareholders 2 comprises of four variables. This factor was referring to the procedures and conduct of AGM. It also addresses company communication with shareholders through annual reports. The board and top management perceived this factor as an important factor since the scores ranged between 98.9% and 100.0%.

Table 7.74: Shareholders 2- AGM and Annual Report Variables	Survey (%)
The company holds the AGM at least every 15 months	98.9
The company has clearly defined procedures on voting at AGM	100.0
Company maintained regular and effective communication with shareholders through annual reports	100.0
The company proxies are allowed to attend, speak & vote at AGM	99.5

Table 7.74 shows survey responses for Shareholders 2.

The third factor, Shareholders 3 contains three variables, which scores ranged between 99.4% and 100.0%. This indicates that the respondent perceive this factor as an important factor as it addresses the voting procedures at EGM, communication with the shareholders regarding their proxies, rights and privileges. It also includes the use of announcements in maintaining regular and effective communication with shareholders.

Table 7.75: Shareholders 3-EGM and Announcement Variables	Survey (%)
The company has sufficient and clearly explained information on voting procedures at EGM	99.4
Company maintained regular and effective communication with shareholders through announcements	100.0
The company communicates the shareholders' proxies, rights & privileges to the shareholder	99.5

Table 7.75 shows survey responses for Shareholders 3.

The fourth factor, shareholders 4 consists of two variables. The board and top management felt that information about the AGM was important. They agreed that the company should used AGM as a platform to communicate with their private investor and company should also encourage them to participate during the meeting.

Table 7.76: Shareholders 4-AGM Function Variables	Survey (%)
The company encourages private investors to participate in the AGM	98.4
The AGM is used by the company to communicate with their private investors	97.2

Table 7.76 shows survey responses for Shareholders 4

The above factors look at aspects of communication that exists between companies and investors. They were determined by board of directors and top management perceptions and opinions of the corporate governance indicators which reflects the company relationship with their investors.

7.4.2.4 Accountability & Audit

The fourth indicator relates to board responsibility and accountability towards the firm shareholder. It includes the financial reporting, internal control and relationship with auditors. The factor analysis resulted in four factors.

The first factor, Accountability & Audit 1 comprises seven variables. This factor addresses issues about board understanding of their responsibilities to safeguard shareholders' investment, company assets and maintain a sound internal control system. They were also responsible to make an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. In order for the board to perform their duty effectively, they received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company. The respondents perceived this factor as a crucial factor in addressing board responsibility and accountability.

Table 7.77:Accountability & Audit 1-Internal Control and Information Received **Variables**	**Survey (%)**
The board has a clear understanding of their responsibilities to safeguard shareholders' investment & company assets	99.5
Board makes an assessment on the internal control status and the control measure takes	99.4
Board has a clear understanding of their responsibilities in maintaining a sound system of company internal control	99.4
Company has an annual review on the material internal control; financial; operational; compliance control & risk	99.4
Board receives timely and quality information on the financial performance of the company	100.0
Board receives timely information about the third party related transactions	98.4
Board receives timely and quality information on the prospects and opportunities of the company	97.8

Table 7.77 shows survey responses for Accountability & Audit 1.

The second factor, Accountability & Audit 2 comprises three variables. The board and top management agreed on the importance of the factor by ensuring company release their audited report to the public within 120 days or four months of the balance day adjustment. They also recommended transparent relationship between company and the external auditor and having audit committee which financially literate.

Table 7.78:Accountability & Audit 2-Report Release and Auditing Variables	**Survey (%)**
The board releases the audited report to the public within 120 day / 4 months of the balance sheet day	92.3
The company has transparent relationship with the external auditor	100.0
The Audit committee members are financially literate	100.0

Table 7.78 shows survey responses for Accountability & Audit 2.

The third factor, Accountability & Audit 3 contains four variables, which refers to company having a clear written term of reference for the audit committee. It also mentions about the composition of audit committee, which were fully non executives' directors and the head of internal audit reports directly to the audit committee. Annually audit committee will assess the adequacy of the internal audit process. From the factor scores, it can be said that the respondent perceived the factor as an important factor.

Table 7.79:Accountability & Audit 3-Audit Committee Variables	**Survey (%)**
The company has a clear written term of reference for the audit committee	100.0
The Audit committee is composed of fully non-executives directors	96.2
Audit committee assess adequacy of the internal audit process annually	100.0
The head of internal audit reports directly to the audit committee	96.7

Table 7.79 shows survey responses for Accountability & Audit 3.

The fourth factor, Accountability & Audit 4 consists of three variables. The respondent agreed on the importance of having continuous engagement between the audit committee chairman and external auditors. The factor also addresses the frequent meetings between audit committee and the external auditor without executive board members present. Lastly, qualitative information about company performance needs to be provided to the board on time.

Table 7.80:Accountability & Audit 4-Board, Audit Committee and External Auditor Variables	**Survey (%)**
There is a continuous engagement between the chairman of the audit committee and the external auditors	95.1
Frequent meetings are held between the Audit committee and the external auditor without executive board members present	94.0
Board receives timely and quality information on the qualitative performance of the company	89.6

Table 7.80 shows survey responses for Accountability & Audit 4.

The above factors related to board responsibility and accountability towards the company shareholder. It also includes information about the financial reporting, quality information received on time by board, company internal control and relationship with auditors.

7.4.2.5 Business Ethics & Responsibility

The fifth indicator relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities in fulfilling their obligations. As such, information implicating such responsibilities must be reported in the annual report. The factor analysis resulted in one factor.

The factor, Business Ethics & Responsibility 1 comprises of six variables. This factor was perceived as an important factor by the respondent since it addresses the company code of ethics and whistle blower policy. This indicates that the board were responsible in ensuring management and employees of the company uphold the highest level of ethical values and responsibilities.

Table 7.81: Business Ethics & Responsibility 1-Code of Ethics and Whistle Blower Policy **Variables**	**Survey (%)**
The company has a detailed and clear staff behaviour expectation	85.8
The company has a formal and transparent complaint procedures	85.8
The company closely monitored the implementation of the code of ethics	88.0
There is a continuous effort in enhancing quality related activities in the organization	96.7
The company established a code of ethics	90.1
The company has a formal and transparent procedure for staff disciplinary matters	96.2

Table 7.81 shows survey responses for Business Ethics & Responsibility 1.

The above factors related to the responsibility of the board in ensuring the company management and employees have the highest level of ethical values and responsibilities. The board were also responsible to ensure the company has a policy implicating such responsibilities.

7.4.2.6 Intellectual Capital

The sixth indicator relates to how the board recognizes intellectual capital as one of the most important assets in the organization. Intellectual capital ("IC") represents one of the most important assets of an organisation. The factor analysis resulted in two factors.

The first factor, Intellectual Capital 1 comprises of five variables. The factor scores ranged between 58.0% and 92.3% indicating that there was a big gap in the scoring. The respondent highly agreed on the importance of having company activities which promote knowledge workers and having a formal and transparent staff promotional policy. This factor also addresses issues about how board recognizes intellectual capital as an important asset to the company. Though the respondent felt that it was not easily measurable, they must take proactive steps in ensuring company established procedure in identifying the present and potential financial value of intellectual capital, established procedures identifying any possible threats to present intellectual capital efficiency, established procedures for identifying renewing and developing intellectual capital.

Table 7.82: Intellectual Capital 1-Recognition Variables	**Survey (%)**
The company has established procedure in identifying the present and potential financial value of intellectual Capital	69.4
The company established procedures identifying any possible threats to present intellectual capital efficiency	58.0
The board approves the company activities which promote knowledge workers	81.4
The company has established procedures for identifying renewing and developing intellectual capital	75.9
The company has a formal and transparent staff promotional policy	92.3

Table 7.82 shows survey responses for Intellectual Capital 1.

The second factor, Intellectual Capital 2 comprises of four variables. The board of directors and top management perceived the importance of intellectual capital by including it in the company strategic planning agenda, approves the allocation of a large amount of expenditure to the employees or staff training and development, approves the company investment in IT related assets and having a detail and formal staff health or safety measures.

Table 7.83: Intellectual Capital 2-Appreciation and Implementation Variables	**Survey (%)**
Board includes intellectual capital in the company strategic planning agenda	78.2
The board approves the allocation of a large amount of expenditure to the employees/staff training and development	90.7
The board approves the company investment in IT related assets	91.8
The company has detailed and formal staff health/safety measures	91.2

Table 7.83 shows survey responses for Intellectual Capital 2.

The above factors related to how board recognize intellectual capital as one of the most important assets in the company and how it was being implemented in the company.

7.4.2.7 Disclosure

The last indicator refers to the company Board of Directors (BOD) responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be “transparent” in disclosing pertinent information to the shareholder. It indicates the extent to which the Board of Directors responsible in ensuring the management team disclose it to the public.

The four factors resulted in the following factor labels: Disclosure 1, Disclosure 2, Disclosure 3 and Disclosure 4. The first factor, Disclosure 1 comprises five variables which were being presented in Table 7.84. The respondents perceived this factor as an important factor indicating responsibility and transparency towards the shareholder. It addresses issues on disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship.

Table 7.84:Disclosure 1-Auditing, Audited Report and Board Responsibility **Variables**	**Surveys (%)**
Sufficient information on how Audit committee assess the adequacy of the internal audit annually by reviewing scope, result cost	95.1
Sufficient information on the company relationship with external auditor	86.8
Board responsible to ensure the company releases the audited report to the public within 120 days/ 4 months of the balance sheet day	93.5
Sufficient information on board understanding their responsibilities in maintaining sound system of company internal control	95.7
The company provides full disclosure of the independent director's responsibility and relationship	95.6

Table 7.84 shows survey responses for Disclosure1.

The second factor, Disclosure 2 comprises four variables which were being presented in table 7.85. The board and top management agreed on the importance of the factor since it addresses the important of board understanding in safeguarding the shareholder investment and company assets. It also relates to how board make an assessment on company internal control status and measure. Disclosure of information on special business in the AGM notice and issues of lead control in the company were also included in this factor.

Table 7.85:Disclosure 2-Internal Control, AGM Notice and Lead Control Variables	Surveys (%)
Sufficient information on board understanding to safeguard shareholder investment and company asset is being disclose	97.2
Company discloses detail and sufficient information about special business in the AGM notice & full explanation of the effects	97.8
Sufficient information on how board makes an assessment on internal control status and measure	91.2
The company discloses the issues of lead control in the company	87.4

Table 7.85 shows survey responses for Disclosure2.

The third factor, Disclosure 3 comprises of three variables which talks about disclosure on independent director's calibre, credibility, skill and experience. It also refers to information on third party related transactions. Information about the formation and role of remuneration committee was also expected to be disclosed in the annual report. The respondent agreed on the importance of this information being made available to the shareholder.

Table 7.86:Disclosure 3-Board Profile, Third Party Transaction and Remuneration Committee Variables	Surveys (%)
The company discloses detail & sufficient information about independent director's calibre, credibility, skill and experience	96.1
Sufficient information about the third party related transactions	97.9
Sufficient and transparent information on the formation and role of remuneration committee disclosed in the annual report	83.1

Table 7.86 shows survey responses for Disclosure 3.

The last factor, Disclosure 4 was about disclosing information on individual director remuneration and other benefit. This factor also refers to disclosure on additional contribution by non-executive director in the annual report. The respondents were not really keen in having detail disclosure of the information made available to the public.

Table 7.87:Disclosure 4-Board Remuneration and Benefit **Variables**	**Surveys (%)**
Company disclose detail and sufficient information of remuneration and other benefit received by individual directors	77.6
Company discloses detail and sufficient information of additional contribution received by non-executive directors	78.7

Table 7.87 shows survey responses for Disclosure 4.

The above factors assess Board of Directors responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be “transparent” in disclosing pertinent information to the shareholder.

7.5 General Discussion

The aim of the second stage of the investigation was to use corporate governance indictors in identifying factors that can model and measure corporate integrity. Factors identified were then being measure its reliability. In each of the seven corporate governance indicators, factors were identified and the important of each factor were also determined. The analyses showed that they have high reliability.

The following were the factors identified to model and measure corporate integrity based on seven corporate governance indicators. It was obtained from the board and top management perceptions and opinions.

7.5.1 Directors

Nine factors were identified and tested for reliability. Based on the analyses, Director 1 was the most significant factor in assessing director's integrity. This factor accounted for 38.3% of the total variance explained by all factors. It addresses board roles and responsibilities. The board of director and top management also perceived this factor as important and practice by company.

7.5.2 Directors' Remuneration

Three factors were identified and the analyses show all the factors have high reliability. The factor analyses identify Directors' Remuneration 1 as the most significant factor in assessing board of director agreement on the procedures, level and make-up of remuneration in the company. It accounted for 44.3% of the total variance explained by all factors. It addresses transparent procedure for developing and fixing directors' remuneration and the attractiveness of the remuneration package. For this factor, the board of director and top management perception shows that company practice and adopt it.

7.5.3 Shareholders

Four factors were identified and the reliability analysis confirmed the reliability of the four underlying factors. Based on the analyses result, it can be surmised that the factor Shareholders 1 was the most significant component in looking at communication aspects that exists between company and investors. This factor accounted for 33.7% of the total variance explained by all factors. It addresses on how company communicate their dividend policy to the shareholder and company acquiring shareholder approval for related party transaction. The board of director and top management also perceived this factor as important and it was practice by the company.

7.5.4 Accountability & Audit

Four factors were selected as a result of the factor analysis and were tested for reliability. Factor Accountability & Audit 1 was the most significant component in addressing issues about board responsibility and accountability to safeguard shareholders' investment, company assets and maintain a sound internal control system. This factor addresses the board responsible in making an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. The factor further addresses the important of board to received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company. This factor accounted for 46.6% of the total variance explained by all factors. The board of director and top management also perceived this factor as important and company practice it.

7.5.5 Business Ethics & Responsibility

Only one factor was identified and it accounted for 58.6% of the total variance explained by other factor. Reliability was also tested. Based on these results, it can be summarized that this factor, Business Ethics & Responsibility 1 was significant component in addressing issues about board responsibility in ensuring company management and employees uphold the highest level of ethical values and responsibilities. This was by ensuring company has a policy implicating such responsibilities. The board of director and top management also agreed with the important of this factor and perceived company practice it.

7.5.6 Intellectual Capital

Two factors were selected with a high reliability result. Based on these results, it can be summarized that the factor Intellectual Capital 1 was the most significant component in addressing issues referring to board appreciation and reorganization of intellectual capital as one of the most important assets in the company. This factor accounted for 62.9% of the total variance explained by all factors. There was a room for improvement for company to recognize intellectual capital as one of the most important assets in the company.

7.5.7 Disclosure

Four factors were selected after factor analysis being conducted. Based on the analyses results, it can be summarized that the factor Disclosure 1 was the most significant component in addressing issues about disclosure. This factor accounted for 44.6% of the total variance explained by all factors. The board of director and top management acknowledge the responsibility to be transparent towards the firm shareholder.

7.6 Summary

Overall the second stage of the investigation identifies corporate governance indicators which can be used to model and measure corporate integrity. It also identified which factor was important in modelling and assessing corporate integrity.

The next chapter present findings from the third stage of investigation. The boards of directors and top management perceptions, opinions and understanding about the company corporate governance were benchmark against the company corporate governance reporting practices in assessing company integrity values. The relationship between corporate integrity and corporate performance will then be explored.

CHAPTER 8: CORPORATE INTEGRITY MEASUREMENT AND CORPORATE PERFORMANCE

8.1 Chapter Description

Chapter eight present the findings for the final stage of the investigations which focuses on assessing and measuring corporate integrity. The relationship between corporate integrity and corporate performance were also explored. This chapter was divided into three sections. The first section presents the content analysis result which was the data collected from the annual report of the Malaysian government link companies as of 30 June 2009. Specifically the findings focus on corporate governance reporting that was purely based on information divulged in the annual reports. It highlights the company score vis-à-vis reporting on their corporate governance practices. Corporate governance reporting scores were obtained using the seven corporate governance indicators. The order of the presentation of the results is sided by corporate governance factors identified from the multivariate analysis in stage two of the data collection process.

The second section of the chapter presents the validation of corporate governance reporting. The company corporate governance reporting practices which were obtained from the annual report were benchmark against the board of director and top management perceptions and opinions about their company corporate governance. The benchmarking results indicate the company integrity value. The third section presents the relationship between company integrity and company performance.

8.2 Corporate Governance Reporting

8.2.1 Sample

The study examines the annual reports of the Malaysian government link companies, as of 30 June 2009. The sample frame for the study was the thirty five government link companies listed in Kuala Lumpur stock exchange. These companies were identified as the research sample since they account for approximately RM 169 billion (AUD$57 billion) or 35% of the market capitalization of the Kuala Lumpur Composite Index (KLCI) and account for an estimated 250,000 of the national workforce (Putrajaya Committee on GLC High Performance 2006). Part of the NIP agenda was to transform the government link companies into high performing entities (Putrajaya Committee on GLC High Performance 2006). In 2004, Malaysian government has launched the government link company Transformation Programme with the dual aims of enhancing economic performance and accelerating the country's social and economic development. Since it was being introduced in 2004, the government link company Transformation Programme has started to show the tangible results.

The study hope to see this result and assessment of the government link companies integrity practices and performance will greatly impact the productivity and wellbeing of almost all companies and almost all Malaysians across the country (Putrajaya Committee on GLC High Performance 2006). A complete list of companies in this study was provided in Appendix 2.The annual reports of these companies have either been obtained directly from the organizations concerned or from their respective websites via links from Bursa Malaysia.

8.2.2 Descriptive statistics

Factors identified from the seven corporate governance indicators were referred in presenting the corporate governance reporting findings. Nominal Scale were used to measure the corporate governance reporting; a "1-point" score denotes the company compliance and acceptance of the gauged factors for corporate governance reporting whilst a "0-point" score represents no compliance. The following reporting percentage indicates the company reporting compliance and acceptance of the gauged factors.

8.2.2.1 Directors

The first indicator relate to the disclosure on the Board of Directors role. It covers five important aspects namely Board Leadership & Control, Board Balance, Board's Right to Information, Appointment of Directors and Board Re-election**.** The first factor, Director 1 relates to disclosure and reporting about the board roles, responsibility, authority, competencies, training and participation in decision making process.

Table 8.1: Director 1- Roles and Responsibilities Variables	**Reporting (%)**
The annual report discloses of the separation of responsibilities between chairman & CEO	97.1
The annual report discloses about training program for existing board members	97.1
The annual report identified the independence of Non-Executive director(s)	100.0
The annual report discloses board competencies in business or management experience	100.0
The annual report discloses board role and responsibilities towards the company	100.0
The annual report discloses the authority of each board committee that has formed	100.0

Table 8.1 shows reporting for Director 1.

The second factor, Director 2 consists of four variables. Director 2 variables refer to disclosure and reporting on the procedures for board election/ re-election, appointment and re-appointment, Nomination committee consideration for board criteria and board capacity to access to professional advisors.

Table 8.2: Director 2- Selection and Appointment Variables	**Reporting (%)**
The annual report discloses procedures for the election and appointment of the board are clear, formal and transparent	94.3
The annual report discloses notice of meetings stating which directors are standing for election	94.3
The annual report discloses that the Nomination committee considered the following criteria as director; persons with caliber, credibility, skill, knowledge, expertise, professionalism, experience and integrity	100.0
The board has separate and independent access to professional advisors	100.0

Table8.2 shows reporting for Director 2.

The third factor, Director 3 contains five variables, which disclosed and reports information on board competencies in industry knowledge and customer based experience, board received timely information from the company, board regular meeting with due notice and detailed agenda for board meeting.

Table 8.3: Director 3- Meeting and Information Variables	**Reporting (%)**
The annual report discloses number of board meeting held per year	100.0
The annual report discloses board competencies in industry knowledge	100.0
Information and detailed agenda for the Board of Directors meetings are being disclosed in the annual report	22.9
The annual report discloses board competencies in customer based experience or knowledge	100.0
The annual report discloses details of attendance of each individual director in respect of meeting held	97.1

Table 8.3 shows reporting for Director 3.

The fourth factor, Director 4 was on disclosure and reporting of information which relates to the role of remuneration and nomination committee, board has minority shareholder representative and the independent of Chairman and CEO.

Table 8.4: Director 4- Committee Function, Minority Shareholder and Independency **Variables**	**Reporting (%)**
The annual report discloses policy in setting appropriate remuneration for the board members by the remuneration committee	97.1
The annual report discloses policy in setting appropriate remuneration for the CEO by the remuneration committee	88.6
The annual report discloses that the Nomination committee actively finds and nominates new directors when needed	100.0
The annual report discloses that the board has minority shareholder representation	94.3
The annual report discloses that all assessments and evaluations carried out by the Nomination Committee are properly documented	22.9
The annual report discloses chairman and Chief Executive Officer (CEO) are independent of each other	97.1

Table 8.4 shows reporting for Director 4.

The fifth factor, Director 5 consists of two variables that disclosed and reports about company vision, mission and strategic goal.

Table 8.5: Director 5- Vision **Variables**	**Reporting (%)**
The vision, mission and strategic goals are in congruence to most of the activities reported in the annual report	57.1
The annual report discloses clearly vision, mission and strategic goals	57.1

Table 8.5 shows reporting for Director 5.

The sixth factor, Director 6 consists of three variables which disclosed and reports information which relates to board schedules for making decisions, board reviews of the company strategic goals and company procedures for succession planning for management team.

Table 8.6: Director 6- Operational Procedure Variables	**Reporting (%)**
The annual report discloses the type of transactions that require Board approval	100.0
The company procedures for the succession planning, including appointment, training, fixing the compensation of replacing **management team** is clear, formal and transparent	8.6
There are sufficient evident being reported that strategic goals are regularly review	71.4

Table8.6 shows reporting for Director 6.

The seventh factor, Director 7 refer to disclosure and reporting of information about board separate and independent access to company secretary and board approval on company Key Performance indicators (KPI).

Table 8.7: Director 7- Professional Advice and Performance Indicator Variables	**Reporting (%)**
The annual report discloses that the board has separate and independent access to company secretary services	100.0
The Key Performance Indicators (KPI) are being identified and reported in the annual report	97.1

Table 8.7 shows reporting for Director 7.

The eighth factor, Director 8 contain three variables which relates to disclosure and reporting of board succession plan, board evaluation and orientation and education programme provided to board.

Table 8.8: Director 8- Succession Plan, Education and Evaluation Variables	Reporting (%)
The company procedures for the succession planning, including appointment, training, fixing the compensation of replacing **board members** is clear, formal and transparent	91.4
The annual report discloses information about orientation and education program for newly appointed board members	34.3
The annual report discloses that all board members are evaluated at regular intervals	88.6

Table 8.8 shows reporting for Director 8.

The last factor, Director 9 comprises of two variables which referring to the disclosure and reporting of board independency and competencies in accounting and finance.

Table 8.9: Director 9- Effectiveness and Competencies Variables	Reporting (%)
The annual report discloses that more than 1/3 of the board are independent which encourages effective decision making	97.1
The annual report discloses board competencies in accounting or finance	100.0

Table 8.9 shows reporting for Director 9.

The above factors assesses company disclosure and reporting on their directors. It relates to information about the board, board balance, board supply of information, appointment of the board and board re-election. The companies were expected to report on the following to their shareholders and other stakeholders.

8.2.2.2 Directors' Remuneration

The second indicator relates to 'Directors' Remuneration'. It includes the Level & Make-up of Remuneration, Procedure and Disclosure. Company needs to disclosed and report this information in their annual report.

The first factor, Directors' Remuneration 1 comprises of four variables. This factor relates to disclosure and reporting on the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages. It also refers to disclosure of information which relates to how company consider pay and employment conditions within the industry. This will ensure directors were offered attractive remuneration package that can retain them in the company.

Table 8.10: Directors' Remuneration 1- Attractive and Transparent Procedure **Variables**	**Reporting (%)**
The annual report discloses that company takes into account pay and employment conditions within the industry	82.9
The annual report discloses detail information on the formation and role of the remuneration committee are transparent	100.0
The annual report discloses detail policy for board remuneration in the corporate governance statement	80.0
The annual report discloses the remuneration of each board member	34.3

Table 8.10 shows reporting for Directors' Remuneration 1.

The second factor, Directors' Remuneration 2 consists of two variables. It disclosed and report information which addresses the formal procedure for developing and fixing the remuneration packages and the executive director's remuneration was based on individual performance.

Table 8.11:Directors' Remuneration 2- Performance Driven and Formal Procedure **Variables**	**Reporting (%)**
The annual report discloses that the executive director's remuneration is based on individual performance	94.3
The annual report discloses information on procedure for developing and fixing the remuneration packages	80.0

Table 8.11 shows reporting for Directors' Remuneration 2.

The third factor, Directors' Remuneration 3 contains two variables, which disclosed and reports information about how company develop and fix the remuneration packages for the non-executive director's. The criteria which company referred to for the package, for example experience, contribution and responsibilities were disclosed in the annual report. Company also disclosed information on how company uses long term incentives for rewarding their executive directors.

Table 8.12:Directors' Remuneration 3- Reward Criteria Variables	**Reporting (%)**
The annual report discloses information on director's remuneration based on experience, contribution and responsibilities	94.3
The annual report discloses information on long term incentives used by company in rewarding their executive directors	71.4

Table 8.12 shows reporting for Directors' Remuneration 3.

The above factors assess company disclosure and reporting on directors' remuneration. The information disclosed and reports were about the board level and make-up of remuneration, remuneration procedures and detail of board remuneration.

8.2.2.3 Shareholders

The third indicator looks at dialogue between companies and investors and also the AGM. This was referring to communication aspect that exists between companies and investors. Companies should use the AGM to communicate with private investors and encourage their participation. Information regarding this matter need to be disclosed and reports in the annual report.

The first factor, Shareholders 1 comprises of four variables. This factor relates to disclosure and reporting of information about company communication on their dividend policy to their shareholder. It also reported procedures to access company information and shareholders’ approval for related party transaction.

Table 8.13: Shareholders 1- Dividend Policy and Related Party Transaction **Variables**	**Reporting (%)**
The annual report discloses clear and transparent dividend policy	85.7
The company provides sufficient information on the dividend policy to the shareholders	85.7
The annual report clearly defined procedures on shareholders accessibility to company information	97.1
The annual report discloses information on shareholders’ approval acquired for related party transaction	94.3

Table 8.13 shows reporting for Shareholders 1.

The second factor, Shareholders 2 comprises four variables. This factor disclosed and reports on the procedures and conduct of AGM. It also reports about company communication with shareholders.

Table 8.14: Shareholders 2- AGM and Annual Report **Variables**	**Reporting (%)**
The annual report discloses information on company holds the AGM at least every 15 months	100.0
The annual report clearly defined procedures on voting at AGM	97.1
Company maintained regular and effective communication with shareholders through annual reports	100.0
The annual report discloses information on company proxies are allowed to attend, speak & vote at AGM	97.1

Table8.14 shows reporting for Shareholders 2.

The third factor, Shareholders 3 contains three variables, which disclosed and reports information which addresses the voting procedures at EGM, communication with the shareholders regarding their proxies, rights and privileges. It also includes information about the use of announcements in maintaining regular and effective communication with shareholders.

Table 8.15: Shareholders 3- EGM and Announcement Variables	**Reporting (%)**
The annual report clearly explained and discloses sufficient information on voting procedures at EGM	2.9
Company maintained regular and effective communication with shareholders through announcements	97.1
The company communicates the shareholders' proxies, rights & privileges to the shareholder	97.1

Table 8.15 shows reporting for Shareholders 3.

The fourth factor, shareholders 4 consists of two variables. It incorporates information about AGM function. Information about how company used the AGM as a platform to communicate with their private investor where they were encouraged to participate during the meeting was also disclosed and reports.

Table 8.16: Shareholders 4- AGM Function Variables	**Reporting (%)**
The company encourages private investors to participate in the AGM	100.0
The AGM is used by the company to communicate with their private investors	100.0

Table 8.16 shows reporting for Shareholders 4

The above factors assesses company disclosure and reporting on communication aspect that exists between companies and their investors. Specifically, it examined to what extent the boards of companies have protected the stakeholders’ rights and privileges, and have reported these in their annual reports.

8.2.2.4 Accountability & Audit

The fourth indicator relates to board responsibility and accountability towards the firm shareholder. It includes the financial reporting, internal control and relationship with auditors. The above information need to be disclosed and reports in the annual report.

The first factor, Accountability & Audit 1 comprises seven variables. This factor disclosed and reports information about board understanding on their responsibilities to safeguard shareholders' investment, company assets and maintain a sound internal control system. Information about the board responsibility in making an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually needs to be disclosed. Annual report also need to report about board receiving timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company in order to ensure they can perform their duty effectively.

Table 8.17:Accountability & Audit 1- Internal Control and Information **Variables**	**Reporting (%)**
The annual report discloses information on board understanding about their responsibilities to safeguard shareholders' investment & company assets	100.0
The annual report discloses information on board making an assessment on the internal control status and the control measure takes	100.0
The annual report discloses information about board clear understanding of their responsibilities in maintaining a sound system of company internal control	100.0
The annual report discloses information on annual review conducted on the material internal control; financial; operational; compliance control & risk management by the internal or external auditors	100.0

The annual report discloses about board receiving timely and quality information on the financial performance of the company	88.6
The annual report discloses about board receiving timely information about the third party related transactions	82.9
The annual report discloses about board receiving timely and quality information on the prospects and opportunities of the company	84.2

Table 8.17 shows reporting for Accountability & Audit 1.

The second factor, Accountability & Audit 2 comprises of three variables. This factor relates to the disclosure and reporting of information on the release of the audited report to public within 120 days or 4 months of the balance day adjustment. Reports about company transparent relationship with the external auditor and information on the audit committee financial literacy were included.

Table 8.18:Accountability & Audit 2- Report Release and Auditing Variables	**Reporting (%)**
The annual report discloses information on board releases the audited report to the public within 120 day / 4 months of the balance sheet day	100.0
The annual report discloses information about company transparent relationship with the external auditor	100.0
The annual report discloses information about the Audit committee members are financially literate	100.0

Table 8.18 shows reporting for Accountability & Audit 2.

The third factor, Accountability & Audit 3 contains four variables, which refers to disclosure and reporting of company clear term of reference on audit committee. It reports about the composition of audit committee, which were fully non executives' directors and information about the head of internal audit reports directly to the audit committee. Disclosure on the annual assessment on the adequacy of the internal audit process by the audit committee was also included in this factor.

Table 8.19:Accountability & Audit 3- Audit Committee Variables	**Reporting (%)**
The annual report discloses information about clear written term of reference for the audit committee	97.1
The annual report discloses that the Audit committee is composed of fully non-executives directors	97.1
The annual report discloses that the Audit committee assess adequacy of the internal audit process annually	100.0
The annual report discloses that the head of internal audit reports directly to the audit committee	85.7

Table 8.19 shows reporting for Accountability & Audit 3.

The fourth factor, Accountability & Audit 4 consists of three variables. It incorporates disclosure and reporting of information on the continuous engagement between the audit committee chairman and external auditors. It also includes information about the frequent meetings between audit committee and the external auditor without executive board members present. Lastly, information about the board being provided on time with qualitative information on company performance was reported in the annual report.

Table 8.20:Accountability & Audit 4- Board, Audit Committee and External Auditor Variables	**Reporting (%)**
The annual report discloses that there is a continuous engagement between the chairman of the audit committee and the external auditors	94.3
The annual report discloses information on frequent meetings held between the Audit committee and the external auditor without executive board members present	65.7
The annual report discloses about the board receiving timely and quality information on the qualitative performance of the company	97.1

Table 8.20 shows reporting for Accountability & Audit 4.

The above factors related to board responsibility and accountability towards the company shareholder. It includes information about the financial reporting, quality information received on time by board, company internal control and relationship with auditors. The Accountability and Audit factors assess the extent of the company accountability and transparency in disclosing the above information in their annual report.

8.2.2.5 Business Ethics & Responsibility

The fifth indicator relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities in fulfilling their obligations. As such, information implicating such responsibilities must be reported in the annual report.

The factor, Business Ethics & Responsibility 1 comprises six variables. This factor relate to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the board must ensure that the company has a policy implicating such responsibilities. Information regarding this matter needs to be disclosed in the annual report.

Table 8.21: Business Ethics & Responsibility 1- Code of Ethics and Whistle Blower Policy **Variables**	**Reporting (%)**
The annual report discloses that the company has a detailed and clear staff behaviour expectation	74.3
The annual report discloses that the company has a formal and transparent complaint procedures	51.4
The annual report discloses that the company closely monitored the implementation of the code of ethics	40.0
The annual report discloses information about there is continuous effort in enhancing quality related activities in the	91.4

organization	
The annual report discloses company code of ethics	42.9
The annual report discloses information about company formal and transparent procedure for staff disciplinary matters	51.4

Table 8.21 shows reporting for Business Ethics & Responsibility 1.

The Business Ethics and Responsibility factor assesses to what extent the management and employees of listed companies uphold their ethical values and responsibilities in fulfilling their obligations. It was the responsibility of the board in ensuring the company management and employees have the highest level of ethical values and responsibilities. The board were also responsible to ensure the company has a policy implicating those responsibilities. As such, information implicating such responsibilities must be reported.

8.2.2.6 Intellectual Capital

The sixth indicator relates to how the board recognizes intellectual capital as one of the most important assets in the organization. The board was responsible in ensuring information pertaining to intellectual capital being reported in the annual report.

The first factor, Intellectual Capital 1 comprises five variables. This factor addresses issues about how board recognizes intellectual capital as an important asset to the company. Though not easily measurable, the BODs must take proactive steps in ensuring company established procedure in identifying the present and potential financial value of intellectual capital; established procedures identifying any possible threats to present intellectual capital efficiency; established procedures for identifying renewing and developing intellectual capital; approves activities which promote knowledge workers and staff promotional policy was formal and transparent. Information pertaining to this need to be disclosed and reports in the annual report.

Table 8.22: Intellectual Capital 1- Recognition Variables	**Reporting (%)**
The annual report discloses information about company establishment of procedure in identifying the present and potential financial value of intellectual Capital	74.3
The annual report discloses information about company establishment of procedures identifying any possible threats to present intellectual capital efficiency	14.3
The annual report discloses information on board approval on the company activities which promote knowledge workers	88.6
The annual report discloses information on the establishment of procedures for identifying renewing and developing intellectual capital	31.4
The annual report discloses information on formal and transparent staff promotional policy	60.0

Table 8.22 shows reporting for Intellectual Capital 1.

The second factor, Intellectual Capital 2 comprises four variables. This factor was referring to information on how board recognizes the importance of intellectual capital by including it in the company strategic planning agenda; approves the allocation of a large amount of expenditure to the employees or staff training and development; approves the company investment in IT related assets and company has a detail and formal staff health or safety measures. The board need to report this information in the annual report.

Table 8.23: Intellectual Capital 2- Appreciation and Implementation Variables	Reporting (%)
The annual report discloses information about intellectual capital being included in the company strategic planning agenda	82.9
The annual report discloses information about the board approval on the allocation of a large amount of expenditure to the employees/staff training and development	77.1
The annual report discloses information about the board approval on the company investment in IT related assets	25.7
The annual report discloses information on detail and formal staff health/safety measures	71.4

Table 8.23 shows reporting for Intellectual Capital 2.

The above factors related to how board recognize intellectual capital as one of the most important assets in the company. Though not easily measurable, the board must take proactive steps in highlighting them in their annual reports.

8.2.2.7 Disclosure

The last indicator refers to the company Board of Directors (BOD) responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be "transparent" in disclosing pertinent information to the shareholder. It indicates the extent to which the Board of Directors responsible in ensuring the management team disclosed it to the public.

The first factor, Disclosure 1 comprises five variables which were being presented in Table 8.24. This factor addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship.

Table 8.24:Disclosure 1- Auditing, Audited Report and Board Responsibility **Variables**	**Reporting (%)**
The annual report discloses sufficient information on how Audit committee assess the adequacy of the internal audit annually by reviewing scope, result cost	94.3
Sufficient information on the company relationship with external auditor	100.0
Board responsible to ensure the company releases the audited report to the public within 120 days/ 4 months of the balance sheet day	100.0
Sufficient information on board understanding of their responsibilities in maintaining sound system of company internal control	100.0
The company provides full disclosure of the independent director's responsibility and relationship	100.0

Table 8.24 shows reporting for Disclosure1.

The second factor, Disclosure 2 comprises four variables which were being presented in table 8.25. This factor addresses the importance of board understanding in safeguarding the shareholder investment and company assets. It also relates to how board make an assessment on company internal control status and measure. Disclosure of information on special business in the AGM notice and issues of lead control in the company are also included in this factor.

Table 8.25:Disclosure 2- Internal Control, AGM Notice and Lead Control **Variables**	**Reporting (%)**
Sufficient information on board understanding to safeguard shareholder investment and company asset is being disclose	100.0
Company discloses detail and sufficient information about special business in the AGM notice & full explanation of the effects	97.1

Sufficient information on how board makes an assessment on internal control status and measure	100.0
The company discloses the issues of lead control in the company	100.0

Table 8.25 shows reporting for Disclosure2.

The third factor, Disclosure 3 comprises of three variables which refer to disclosure on independent director's calibre, credibility, skill and experience. It also includes information on third party related transactions. Information about the formation and role of remuneration committee was also expected to be disclosed in the annual report.

Table 8.26:Disclosure 3- Board Profile, Third Party Transaction and Remuneration Committee Variables	**Reporting (%)**
The company discloses detail & sufficient information about independent director's calibre, credibility, skill and experience	100.0
Sufficient information about the third party related transactions	88.6
Sufficient and transparent information on the formation and role of remuneration committee disclosed in the annual report	100.0

Table 8.26 shows reporting for Disclosure 3.

The last factor, Disclosure 4 was about disclosing information on individual director remuneration and other benefit. This factor also referred to disclosure on additional contribution by non-executive director in the annual report.

Table 8.27:Disclosure 4- Board Remuneration and Benefit Variables	**Reporting (%)**
Company disclose detail and sufficient information of remuneration and other benefit received by individual directors	31.4
Company discloses detail and sufficient information of additional contribution received by non-executive directors	34.3

Table 8.27 shows reporting for Disclosure 4.

The above factors assess Board of Directors responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be “transparent” in disclosing pertinent information to the shareholder in the annual report.

8.3 Corporate Integrity Assessment

8.3.1 Corporate governance reporting validation

Kimber and Lucas (2001) defined integrity as being honourable, honest, loyal, faithful and trustworthy. He further explained that integrity concept related to consistency of values and actions or words and deeds. The study investigates the consistency between corporate governance reporting practice and the board of director and top management perceptions and opinions about their company corporate governance.

Corporate governance reporting uses the seven corporate governance indicators as the reporting checklist to assess company reporting practices. The same checklist was used in the survey questionnaire to assess board perceptions and opinions about company corporate governance practices. The benchmarking results assess and measure the company integrity value. Variances calculated indicate the discrepancy between corporate governance reporting and corporate governance survey score. High variance computation means low integrity value.

8.3.2 Descriptive statistics

The presentations of the benchmarking results were based on corporate governance factors identified from the factor analysis exercise in stage two of the data collection process.

8.3.2.1 Directors

The first indicator relate to the role of the Board of Directors (BOD). It covers five important aspects namely Board Leadership & Control, Board Balance, Board's Right to Information, Appointment of Directors and Board Re-election**.**

The first factor, Director 1 addresses the board roles, responsibility, authority, competencies, training and participation in decision making process.

Table 8.28 Director 1-Roles & Responsibilities Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Clear understanding of the separation of responsibilities between chairman & CEO	97.1	99.4	2.3
Board are aware & informed about training program available to them	97.1	97.3	0.2
The number of Non-Executive participation on the board encourages effective decision	100.0	97.8	2.2
Board has competencies in business & management experience	100.0	99.5	0.5
Clear understanding of role & responsibilities	100.0	98.91	1.09
Company board committee has a clear understanding of their authority and report to the board	100.0	99.5	0.5

Table 8.28 shows corporate integrity for Director 1.

As shown in table 8.28, the variance calculated ranging from 0.2% to 2.3%. Both reporting and survey resulted with high score, between 97.1% and 100%. It shows that the board perceptions and opinions were in-line with the information disclosed in the annual report. The consistency in score between corporate governance reporting and survey, indicate that Director 1 was a good indicator to assess corporate integrity.

The second factor, Director 2 consists of four variables. Director 2 variables address the procedures for board election/ re-election, appointment and re-appointment, nomination committee consideration for board criteria and board capacity to access to professional advisors.

Table 8.29 Director 2-Selection & Appointment Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Procedures for election and appointment of the board members are clear, formal and transparent	94.3	96.2	1.9
The company procedures for the re-election and re appointment are clear, formal & transparent	94.3	96.1	1.8
The nomination committee considered the following criteria as director; calibre, credibility, skill, knowledge, expertise, professionalism, experience and integrity	100.0	94.6	5.4
Board has capacity to have independent access to professional advisors	100.0	96.7	3.3

Table 8.29 shows corporate integrity for Director 2.

The results in table 8.29 show that the variance calculated ranging from 1.8% to 5.4%. Both reporting and survey score high percentage indicates that there was a consistency between board perceptions and company disclosure practice on board selection, board appointment and board capacity to access to professional advisor. Director 2 was also a good indicator to assess corporate integrity.

The third factor, Director 3 contains five variables, which incorporate board competencies in industry knowledge and customer based experience, timely information received from the company, regular meeting with due notice and detailed agenda for board meeting.

Table 8.30 Director 3-Meeting & Information Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Board has regular meetings with due notice of issues to be discussed without management present	100.0	77.6	22.4
Board has competencies in industry	100.0	98.9	1.1

knowledge			
Board receives timely information and detailed agenda for board of directors meetings	22.9	98.9	76.0
Board has competencies in customer based experience/knowledge	100.0	95.1	4.9
Board is supplied with timely and quality information from company to enable them to discharge their duties	97.1	93.5	3.6

Table 8.30 shows corporate integrity for Director 3.

Variance calculated for Director 3 range from 1.1% to 76.0%. The biggest variance was being contributed by the third variable which referred to timely information received by board with a detailed agenda for directors meeting. Majority of the board and top management felt that they received timely information and detailed agenda for board meetings but this information were not reported enough in the annual report. The company need to improve their reporting practice.

The second highest variance was on board having regular meetings with due notice of issues to be discussed without management present. For this variable, only 77.6% of board and top management agreed with this statement whereas reporting scored 100%. It indicates that company highly comply with the gauged factor for reporting but 22.4% of board and top management disagreed with this. The rest of the variables under this factor show a good consistency between reporting and survey score.

The fourth factor, Director 4 consists of six variables related to the role of remuneration and nomination committee, board has minority shareholder representative and the independent of Chairman and CEO.

Table 8.31 Director 4-Committee Function, Minority Shareholder & Independency Variables	Reporting (%)	Survey (%)	Variance (%)
The remuneration committee sets appropriate remuneration for the board members	97.1	92.9	4.2
The remuneration committee sets appropriate remuneration for the CEO	88.6	95.1	6.5
The nomination committee actively finds and nominates new directors when needed	100.0	84.1	15.9
Board has minority shareholder representation	94.3	68.3	26.0
The nomination committee documents all assessments and evaluations carried out in discharge of its function	22.9	89.1	66.2
Chairman and CEO are independent of each other	97.1	97.3	0.2

Table 8.31 shows corporate integrity for Director 4.

Table 8.31 shows variance calculation for Director 4. Variance calculated ranging from 0.2% to 66.2%. For this factor, the board and top management agreed with the independent of chairman and CEO which was also reported in the annual report. The variance calculated for this variable was the smallest. There was also consistency between reporting and survey score for the first and second variables which addresses the remuneration committee responsibility in setting appropriate remuneration for board members and CEO.

The biggest variance calculated under this factor was 66.2% which relates to the documentation made by the nomination committee on all assessments and evaluation carried out in discharging their function. 89.1% of the board and top management agreed that nomination committee documented all their assessments and evaluations carried out in discharging their duties. It was in contrast with the reporting score where only 22.9% of company disclosed this information in their annual report.

Another variable which show high variance calculation was on minority shareholder representative in board. Only 68.3% of board and top management agree that their company board have minority shareholder representative but the reporting of this matter was being done extensively with a score of 94.3%.

Another contradicting score was on nomination committee duties in finding and nominating new directors when needed. A good reporting score of 100% was obtained but 15.9% of board and top management don't agree with this.

The fifth factor, Director 5 consists of two variables that relates to company vision, mission and strategic goal. Variances of 42.4% were calculated for both variables in this factor. Almost all board member and top management perceived the company activities agree with the vision, mission and strategic goals which was being shown by the survey score of 99.5%. They also agreed that board have a clear understanding on the company vision, mission and strategic goals. On the other hand, only 57.1% of information regarding this matter was disclosed and reported in the annual report. The consistency between the board and top management perception and the information being reported in the annual report was important since this factor relates to the company direction.

Table 8.32 Director 5-Vision Variables	Reporting (%)	Survey (%)	Variance (%)
Activities of the company agree with the vision, mission and strategic goals	57.1	99.5	42.4
Board have a clear understanding of the company vision, mission and strategic goals	57.1	99.5	42.4

Table 8.32 shows corporate integrity for Director 5.

The sixth factor, Director 6 consists of three variables related to board schedules for making decisions, board reviews of the company strategic goals and company procedures for succession planning for management team.

Table 8.33 Director 6-Operational Procedure Variables	Reporting (%)	Survey (%)	Variance (%)
Board has a formal schedule of matters specifically reserved for its decisions	100.0	92.9	7.1
Company procedures for the succession planning for Mgt team is clear, formal and transparent	8.6	81.4	72.8
Board regularly reviews the company strategic goals	71.4	92.9	21.5

Table 8.33 shows corporate integrity for Director 6.

The variances calculated for Director 6 were presented in table 8.33. It ranges from 7.1% to 72.8%. A small gap was identified for the first variable which addresses board formal schedule of matters specifically reserved for its decision. An excellent reporting was made for this issue with a score of 100% and 92.9% of board and top management agreed with it. Only 7.1% of board and top management had an opposite perceptions and opinions regarding this matter.

The second variable under this factor talks about clear, formal and transparent procedures for the management team succession planning. The disclosure and reporting on this matter was really poor with a score of only 8.6%. The board and top management perceptions regarding this matter scored 81.4% indicating that their company have a clear, formal and transparent procedure for management team succession plan but it was not disclosed and reported enough in the annual report. This has resulted with a significant variance of 72.8%.

The last variable addresses about how board regularly review company strategic goals. 92.9% of board and top management agreed with the statement but the disclosure on this issue was only 71.4%. It can be concluded that, there was room for improvement.

The seventh factor, Director 7 consists of two variables related to board access to company secretary and board approval on company Key Performance indicators (KPI).

Table 8.34 Director 7-Professional Advice & Performance Indicator Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Board has separate and independent access to company secretary services	100.0	94.5	5.5
Board approved the KPI of the company	97.1	99.4	2.3

Table 8.34 shows corporate integrity for Director 7.

Variances calculated for Director 7 were presented in table 8.34. As shown in the table, there were consistencies in reporting and survey score for both variables under this factor. The board and top management agreed with the statement and information regarding this matter was being disclosed and reported in the annual report.

The eighth factor, Director 8 contain three variables which relates to board succession plan, board evaluation and orientation and education programme provided to board.

Table 8.35 Director 8-Succession Plan, Education & Evaluation Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Company procedures for the succession planning for Board is clear, formal and transparent	91.4	63.9	27.5
Newly appointed board are provided with an orientation & education programme	34.3	70.5	36.2
All board members are evaluated at regular intervals	88.6	72.7	15.9

Table 8.35 shows corporate integrity for Director 8.

Table 8.35 present variances calculated for Director 8 which ranging from 15.9% to 36.2%. The first variable addresses issues on procedures for board succession planning which was clear, formal and transparent. Information pertaining to this issue was well reported in the annual report with a score of 91.4% but only 63.9% of board and top management who's agreed with this statement. About 36.1% of board and top management have an opposite opinion regarding this matter.

The second variable which explains about orientation and education programme for newly appointed board was poorly reported in the annual report with only 34.3% of reporting score. On the other hand, the survey scored 70.5% which was double the percentage comparing to the reporting score. About 29.5% of board and top management perceived their company didn't provide orientation and education programme for newly appointed board member. Based on the score from both reporting and survey, company need to ensure newly appointed board attend orientation and education programme so that they can discharge their duties effectively. Information pertaining to this matter needs to be transparently disclosed and reported in the annual report.

The third variable shows a variance of 15.9%. The variable was about board member being evaluated at regular intervals. It was fairly reported with an 88.6% reporting score, whereas only 72.7% of the board and top management agreed with the statement. About 27.3% of the board and top management have a different opinion regarding this matter. Company need to improved their evaluation practice on board and transparently report it in the annual report.

The last factor, Director 9 comprises of two variables which referring to board independency and competencies in accounting and finance. The variances calculated ranging from 0.7% to 1.1%, indicating reporting and survey score were not much of a different.

The first variable under Director 9, addresses issues on one third or more of board member were independent to encourage effective decision making. Company disclosed and reports this information in their annual report and the board and top management perceived their company have independent board to make effective decision making.

The second variable refers to board competencies in accounting and finance. An excellent reporting with a score of 100% was obtained and majority of board and top management agreed with this. Only 1.1% board and top management have opposite opinion.

Table 8.36 Director 9-Effectiveness & Competencies Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
More than 1/3 of the board are independent which encourages effective decision making	97.1	97.8	0.7
Board has competencies in accounting & finance	100.0	98.9	1.1

Table 8.36 shows variables and loadings for Director 9.

The above factors measure director's integrity. They were determined by benchmarking annual report disclosure practice and perception from the board of directors and top management on corporate governance indicators which aim to improve the quality of board and strengthening the board. Director with integrity will ensure they can discharge their roles and responsibilities effectively.

8.3.2.2 Directors' Remuneration

The second indicator relates to 'Directors' Remuneration'. It includes the Level & Make-up of Remuneration, Procedure and Disclosure. The factor analysis resulted in three factors.

The first factor, Directors' Remuneration 1 comprises four variables. This factor addresses the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages. It also related to how company consider pay and employment conditions within the industry. This will ensure directors were offered attractive remuneration package that can retain them in the company.

Table 8.37 Directors' Remuneration 1- Attractive & Transparent Procedure Variables	Reporting (%)	Survey (%)	Variance (%)
Company takes into account pay and employment conditions within the industry	82.9	95.7	12.8
The formation and role of the remuneration committee are transparent	100.0	94.6	5.4
Company has a transparent procedure for developing and fixing the remuneration packages	80.0	65.0	15.0
Level of remuneration is sufficient to attract and retain the directors needed to run the company successfully	34.3	76.0	41.7

Table 8.37 shows corporate integrity for Directors' Remuneration 1.

Table 8.37 display variances calculated for Directors' Remuneration 1, ranging from 5.4 to 41.7. The first variable addresses on how company takes into account pay and employment conditions within the industry. Majority of board and management team agreed that company consider pay and employment conditions in the industry which gives a score of 95.7%. Reporting for this information only scored 82.9% which gives a 12.8% variance.

The second variable talks about the transparency of the remuneration committee formation and role. A perfect score of 100% were scored for reporting of this information in the annual report and majority of board and top management agreed with this. Only 5.4% of board and top management have the opposite perception.

The third variable address issues on transparent procedure for developing and fixing remuneration packages. Only 80% score obtained from reporting and 65% score for survey which resulted in 15% variance. From the score result, it shows that 35% of board and top management don't perceive their company having transparent procedure in developing and fixing remuneration packages. Improvement in reporting the issue also need to be addressed by the company.

The last variable listed under Directors' Remuneration 1 was on sufficient level of remuneration to attract and retain directors needed to run the company successfully. The variance calculated was 41.7% which indicate that there was a discrepancy between information reported and perception of board and top management pertaining to the issue. 76% of board and top management agreed with the statement and only 34.3% of information being disclosed in the annual report. Company need to ensure remuneration offer to the directors were attractive enough to retain them in the company. Detail information about this matter need to be disclosed and reports in the annual report.

The second factor, Directors' Remuneration 2 consists of two variables. Directors' Remuneration 2 variables address the formal procedure for developing and fixing the remuneration packages and the executive director's remuneration was based on individual performance.

Table 8.38 Directors' Remuneration 2-Performance Driven & Formal Procedure Variables	Reporting (%)	Survey (%)	Variance (%)
The executive director's remuneration is based on individual performance	94.3	87.4	6.9
Company has a formal procedure for developing and fixing the remuneration packages	80.0	89.1	9.1

Table 8.38 shows corporate integrity for Directors' Remuneration 2.

The results in table 8.38 show benchmarking for Directors' Remuneration 2. The first variable was about executive director's remuneration based on individual performance. Reporting concerning this matter scored 94.3% whereas perception score was only 87.4%. The inconsistency between reporting and survey resulted with a 6.9% of variance. The reporting score was better than the survey score indicating that company may be over emphasised on reporting the information in the annual report but it was not really being practiced by the company.

The other variable under this factor was about formal procedure in developing and fixing the remuneration packages. About 89.1% of board and top management perceived their company having formal procedure in developing and fixing the remuneration packages. Reporting score for this variable was only 80% indicating that about 20% of company failed to disclosed and report the information in the annual report.

The third factor, Directors' Remuneration 3 contains two variables, which incorporate company's ways of developing and fixing the remuneration packages for the non-executive director's by referring to experience, contribution and responsibilities. The company also uses long term incentives for rewarding their executive directors.

Table 8.39 Directors' Remuneration 3- Reward Criteria Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The non executives director's remuneration is based on experience, contribution & responsibilities	94.3	71.5	22.8
Company uses long term incentives for rewarding their executive directors	71.4	80.4	9.0

Table 8.39 shows corporate integrity for Directors' Remuneration 3.

Table 8.39 show variance calculated for Directors' Remuneration 3 which ranges from 9% to 22.8%. The first variable which have the biggest variance explain about the non executive director's remuneration which were based on experience, contribution and responsibilities. An excellent reporting concerning this matter were made by the company in the annual report but only 71.5% of board and top management agreed with this. 28.5% of board and top management perceived their company was not referring to experience, contribution and responsibilities as a base in formulating non executive director's remuneration.

The second variable under this factor explained about the long term incentives used by company in rewarding their executive directors. Reporting score for this variable was lower as compared to the survey score indicating that many company uses long term incentive to reward executive director but not sufficient information concerning this matter being reported in the annual report.

The above factors measure the integrity of directors' remuneration procedures in the company. They were determined by benchmarking annual report disclosure and perception from the board of directors and top management. The integrity on remuneration procedures will ensure that directors were offered attractive remuneration package that can retained them in the company and company annual report disclosed detail information on director remuneration.

8.3.2.3 Shareholders

The third indicator looks at dialogue between companies and investors and also the AGM. This was referring to communication aspect that exists between companies and investors. The factor analysis resulted in four factors.

The first factor, Shareholders 1 comprises four variables. This factor looks at aspects of company communication to the shareholder regarding dividend policy. It also addresses procedures to access company information and shareholders' approval for related party transaction.

Table 8.40 Shareholders 1-Dividend Policy & Related Party Transaction Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The company has a clear and transparent dividend policy	85.7	73.3	12.4
The company provides sufficient information on the dividend policy to the shareholders	85.7	66.7	19.0
The company has a clearly defined procedures on shareholders accessibility to company information	97.1	92.9	4.2
The company acquires shareholders approval for related party transaction	94.3	92.9	1.4

Table 8.40 shows corporate integrity for Shareholders 1.

Table 8.40 present results for Shareholders 1 with variances calculated ranging from 1.4% to 19.0%. There was a consistency between reporting and survey score for the last variable. The variable addresses issue on company acquired shareholder approval for related party transaction. The reporting and perception concerning this matter was inline.

The third variable also shows a small variance between reporting and survey score. Company provide information on how shareholders can access company information in the annual report with reporting score of 97.1%. Majority of the board and top management agreed with this with only 7.1% having opposite opinion.

The biggest variance calculated under this factor was from the second variable. Reporting on this matter scored 85.7% as compared to the survey which only scored 66.7%. This indicates that about 33.3% of board and top management felt company did not provide sufficient information on the dividend policy to the shareholders. The inconsistency in score indicates that company need to improve their reporting as well as the actual practice concerning this matter.

The first variable for this factor explain about company having clear and transparent dividend policy. Company did report in their annual report about this matter but there were still room for improvement. Only 73.3% of board and top management felt their company had a clear and transparent dividend policy. The variance between reporting and survey score indicate that the transparency of the company dividend policy needs improvement and information pertaining to this, needs to be well communicated to the shareholder in the annual report.

The second factor, Shareholders 2 comprises of four variables. This factor was referring to the procedures and conduct of AGM. It also addresses company communication with shareholders through annual reports.

Table 8.41 Shareholders 2-AGM & Annual Report Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The company holds the AGM at least every 15 months	100.0	98.9	1.1
The company has clearly defined procedures on voting at AGM	97.1	100.0	2.9
Company maintained regular and effective communication with shareholders through annual reports	100.0	100.0	0.0
The company proxies are allowed to attend, speak & vote at AGM	97.1	99.5	2.4

Table 8.41 shows corporate integrity for Shareholders 2.

The above table show integrity assessment for Shareholder 2. There was a consistency between reporting and survey score for all the variables. The reporting on voting procedure at AGM and proxies rights at AGM was well reported and board and top management agreed with it. The company also hold their AGM at least every fifteen months which was also agreed by the board and top management. A perfect score of 100% were obtained for both reporting and survey for the third variable which addresses on company uses annual report to maintain regular and effective communication with their shareholder.

The third factor, Shareholders 3 contains three variables, which addresses the voting procedures at extraordinary general meeting (EGM), communicate with the shareholders regarding their proxies, rights and privileges. It also includes the use of announcements in maintaining regular and effective communication with shareholders.

Table 8.42 Shareholders 3-EGM & Announcement Variables	Reporting (%)	Survey (%)	Variance (%)
The company has sufficient and clearly explained information on voting procedures at EGM	2.9	99.4	96.5
Company maintained regular and effective communication with shareholders through announcements	97.1	100.0	2.9
The company communicates the shareholders' proxies, rights & privileges to the shareholder	97.1	99.5	2.4

Table 8.42 shows corporate integrity for Shareholders 3.

Table 8.42 display variances calculated for Shareholder 3 which ranges from 2.4% to 96.5%. The most significant variance calculated under this factor was from the first variable which explains about voting procedures at EGM. Almost all board member and top management agreed that sufficient information on the EGM procedures was provided and a clear explanation was made available to the shareholders but very minimal reporting was made in the annual report. Company need to improve their reporting practice by ensuring that what was practiced was also reported in the annual report.

The other two variables show that there was a consistency between reporting and survey score. The variables were explaining about company maintaining regular and effective communication with shareholder through announcements, while the other variable explain about how company communicates the shareholders' proxies rights and privileges to the shareholder. These two variables indicate that what was reported in the annual report was also practiced in the company.

The fourth factor, shareholders 4 consists of two variables. It incorporates information about AGM function. The company used the AGM as a platform to communicate with their private investor where they are encouraged to participate during the meeting.

Table 8.43 Shareholders 4-AGM Function **Variables**	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The company encourages private investors to participate in the AGM	100.0	98.4	1.6
The AGM is used by the company to communicate with their private investors	100.0	97.2	2.8

Table 8.43 shows corporate integrity for Shareholders 4

The results in table 8.43 show variances calculated for Shareholder 4 which ranging from 1.6% to 2.8%. For both variables under this factor, reporting scored a perfect 100% which reflect a good disclosure practice made by the company. Almost all the board and top management agreed with the two variables giving the survey score of 98.4% and 97.2% respectively. The consistency between reporting and survey score for this factor indicate that company really use AGM as a platform to communicate with their private investor and private investor was also encouraged to participate in AGM.

The above factors assess the integrity aspect of communication and relationship between companies and investors. They were determined by benchmarking annual report disclosure and perception from the board of directors and top management. The integrity of the communication procedure will ensure a good relationship between company and their shareholder being maintained.

8.3.2.4 Accountability & Audit

The fourth indicator relates to board responsibility and accountability towards the firm shareholder. It includes the financial reporting, internal control and relationship with auditors. The factor analysis resulted in four factors.

The first factor, Accountability & Audit 1 comprises seven variables. This factor addresses issues on board understanding of their responsibilities to safeguard shareholders' investment, company assets and maintain a sound internal control system. They were also responsible to make an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. In order for the board to perform their duty effectively, they received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company.

Table 8.44 Accountability & Audit 1- Internal Control & Information Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The board has a clear understanding their responsibilities to safeguard shareholders' investment & company assets	100.0	99.5	0.5
Board makes an assessment on the internal control status and the control measure takes	100.0	99.4	0.6
Board has a clear understanding of their responsibilities in maintaining a sound system of company internal control	100.0	99.4	0.6
Company has an annual review on the material internal control; financial; operational; compliance control & risk	100.0	99.4	0.6
Board receives timely and quality	88.6	100.0	11.4

information on the financial performance of the company			
Board receives timely information about the third party related transactions	82.9	98.4	15.5
Board receives timely and quality information on the prospects and opportunities of the company	84.2	97.8	13.6

Table 8.44 shows corporate integrity for Accountability & Audit 1.

The score in table 8.44 present the variance calculation ranging from 0.5% to 15.5% for Accountability & Audit 1. The first four variables showed a good consistency between reporting and survey score. All four variables scored a perfect 100% for reporting and almost all board and top management agreed with this. The result indicates that board understand their responsibilities to safeguard shareholders' investment, company assets and maintain a sound internal control system. They also responsible to make an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. All of this information was also reported in the annual report.

The fifth variable which addresses on board receiving timely and quality information on the financial performance of the company scored a perfect 100% for survey. The reporting only obtained 88.6% indicating that company need to be more transparent in disclosing information pertaining to this variable in the annual report.

The next variable which looks at board receiving timely information on third party related transactions scored only 82.9% for reporting whereas almost all board and top management agreed with the statement. The variance between reporting and survey indicate that reporting practice need improvement to ensure what was practice by the company was well reported in the annual report.

The last variable also shows that the survey scored better that the reporting. 97.8% of board and top management agreed that their company board receives timely and quality information on the prospects and opportunities of the company. Reports on this matter only scored 84.2% which indicates that company need to be more transparent in reporting the issue in the annual report.

The second factor, Accountability & Audit 2 comprises three variables. This factor was referring to the release of the audited report to public within 120 days or 4 months of the balance day adjustment. It also highlights company transparent relationship with the external auditor and the audit committee are financially literate.

Table 8.45 Accountability & Audit 2-Report Release & Auditing Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The board releases the audited report to the public within 120 day / 4 months of the balance sheet day	100.0	92.3	7.7
The company has transparent relationship with the external auditor	100.0	100.0	0.0
The Audit committee members are financially literate	100.0	100.0	0.0

Table 8.45 shows corporate integrity for Accountability & Audit 2.

Table 8.45 present benchmarking result for Accountability & Audit 2. Two of the variables listed under this factor have the same score percentage for reporting and survey, which was 100%. This variable addresses issues on transparent relationship with external auditor and audit committee members were financially literate. The board and top management perception on the practice of the company regarding this matter were clearly reported in the annual report.

Variable which refer to the release of the audited report to public within 120 days or 4 months of the balance day adjustment scored a variance of 7.7%. A perfect 100% were scored for reporting but only 92.3% of board and top management agreed with this.

The third factor, Accountability & Audit 3 contains four variables, which refers to company having a clear written term of reference for the audit committee. It also mentions about the composition of audit committee, which were fully non executives' directors and the head of the internal audit reports directly to the audit committee. Annually audit committee will assess the adequacy of the internal audit process.

Table 8.46 Accountability & Audit 3-Audit Committee **Variables**	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The company has a clear written term of reference for the audit committee	97.1	100.0	2.9
The Audit committee is composed of fully non-executives directors	97.1	96.2	0.9
Audit committee assess adequacy of the internal audit process annually	100.0	100.0	0.0
The head of internal audit reports directly to the audit committee	85.7	96.7	11.0

Table 8.46 shows corporate integrity for Accountability & Audit 3.

Table 8.46 show variances calculated for Accountability & Audit 3. The first three variables show a consistency in score between reporting and survey. The variable addresses issues on company having a clear written term of reference for the audit committee. It also addresses about the composition of audit committee, which were fully non executives' directors and audit committee will assess the adequacy of the internal audit process annually. The benchmarking results indicate that the company board members responsible and accountable towards their shareholder.

The last variable explained about the head of internal audit reports directly to the audit committee. For this variable, almost all board and top management felt it was practiced in the company but was not reported thoroughly in the annual report. Company need to improve their reporting practice.

The fourth factor, Accountability & Audit 4 consists of three variables. It incorporates information about the continuous engagement between the audit committee chairman and external auditors. It also includes information about the frequent meetings between audit committee and the external auditor without executive board members present. Lastly, qualitative information about company performance was provided to board on time.

Table 8.47 Accountability & Audit 4-Board, Audit Committee & External Auditor Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
There is a continuous engagement between the chairman of the audit committee and the external auditors	94.3	95.1	0.8
Frequent meetings are held between the Audit committee and the external auditor without executive board members present	65.7	94.0	28.3
Board receives timely and quality information on the qualitative performance of the company	97.1	89.6	7.5

Table 8.47 shows corporate integrity for Accountability & Audit 4

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The above table present score for Accountability & Audit 4. The variances calculated ranging from 0.8% to 28.3%. The first variable which talks about the continuous engagement between the audit committee chairman and external auditors resulted with only 0.8% variance indicating both report and survey were inline.

About 94% of board member and top management agreed that their company had a frequent meetings between audit committee and the external auditor without executive board members present but reports on this matter only scored 65.7%. This indicates information pertaining to this matter need improvement to reflect company practice.

A good report score was obtained for the last variable. Information about board received timely and quality information on the qualitative performance of the company were reported in the annual report. The board and top management perception only scored 89.6% which result a 7.5% variance. Information reported in the annual report may lead to false assurance that board getting timely and quality information on company qualitative performance.

The above factors assess board integrity in providing assurance to the shareholder regarding the company financial reporting, quality information received on time by board, company internal control and relationship with auditors. It reflected board responsibility and accountability towards the company shareholder.

8.3.2.5 Business Ethics & Responsibility

The fifth indicator relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities in fulfilling their obligations. As such, information implicating such responsibilities must be reported in the annual report. The factor analysis resulted in one factor.

The first factor, Business Ethics & Responsibility 1 comprises six variables. This factor relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the board must ensure that the company has a policy implicating such responsibilities.

Table 8.48 Business Ethics & Responsibility1- Code of Ethics & Whistle Blower Policy Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The company has a detailed and clear staff behaviour expectation	74.3	85.8	11.5
The company has a formal and transparent complaint procedures	51.4	85.8	34.4
The company closely monitored the implementation of the code of ethics	40.0	88.0	48.0
There is a continuous effort in enhancing quality related activities in the organization	91.4	96.7	5.3
The company established a code of ethics	42.9	90.1	47.2
The company has a formal and transparent procedure for staff disciplinary matters	51.4	96.2	44.8

Table 8.48 shows corporate integrity for Business Ethics & Responsibility 1.

Table 8.48 present validations result for Business Ethics & Responsibility 1 which variance ranging from 5.3% to 48.0%. Reporting on company having a clear and detail staff behaviour expectation scored only 74.3% as compared to 85.8% of board and top management agreed with the statement. A variance of 11.5% between reporting and survey indicate that reporting on this matter needs improvement.

The second variable talks about the existence of formal and transparent complaint procedures. 85.8% of board and top management perceived that their company have a formal and transparent complaint procedure whereas reporting on this matter only scored 51.4%. The discrepancies between the two score indicate what was practice in the company was not extensively reported in the annual report.

The third variable under this factor relates to the monitoring of the code of ethics implementation. About 88% of board and top management felt that company closely monitored the implementation of the code of ethics but information regarding this matter was poorly reported. The inconsistency of the score resulted with a 48% variance. Information about this matter was important to the investor since it indicate how board ensure their company management team and employees uphold the highest level of ethical values and responsibilities in fulfilling their obligations.

The fourth variable shows a good score for both reporting and survey with only 5.3% variance being calculated. This variable talks about company having continuous effort in enhancing quality related activities in the organization.

The fifth variable addresses issue on the establishment of code on ethics. More than 90% board and top management said that their company established code on ethics but the information pertaining to this matter were poorly reported in the annual report. A variance of 47.2% indicates that company doesn't have transparent disclosure on this matter in their annual report.

The last variable talks about company having a formal and transparent procedure for staff disciplinary matters. About 96.2% of board member and top management agreed company has established procedure for staff disciplinary matters but reporting regarding this matter was only 51.4%. The inconsistent scoring has resulted with 44.8% variance which indicates improvement on reporting was crucial.

The above factor assesses board integrity in ensuring company management and employees have the highest level of ethical values and responsibilities. Board were responsible to ensure company has a policy implicating such responsibilities.

8.3.2.6 Intellectual Capital

The sixth indicator relates to how the board recognizes intellectual capital as one of the most important assets in the organization. Intellectual capital ("IC") represents one of the most important assets of an organisation. The factor analysis resulted in two factors.

The first factor, Intellectual Capital 1 comprises five variables. This factor addresses issues about how board recognizes intellectual capital as an important asset to the company. Though not easily measurable, the BODs must take proactive steps in ensuring company established procedure in identifying the present and potential financial value of intellectual capital; established procedures identifying any possible threats to present intellectual capital efficiency; established procedures for identifying renewing and developing intellectual capital; approves activities which promote knowledge workers and staff promotional policy was formal and transparent.

Table 8.49 Factor Intellectual Capital 1- Recognition Variables	Reporting (%)	Survey (%)	Variance (%)
The company has established procedure in identifying the present and potential financial value of intellectual Capital	74.3	69.4	4.9
The company established procedures identifying any possible threats to present intellectual capital efficiency	14.3	58.0	43.7
The board approves the company activities which promote knowledge workers	88.6	81.4	7.2
The company has established procedures for identifying renewing and developing intellectual capital	31.4	75.9	44.5
The company has a formal and transparent staff promotional policy	60.0	92.3	32.3

Table 8.49 shows corporate integrity for Intellectual Capital 1.

The score in table 8.49 show the benchmarking for Intellectual Capital 1 which resulted in variances ranging from 4.9% to 44.5%. The first variable looks into matter concerning about procedure in identifying the present and potential financial value of intellectual capital. Both reporting and survey score were not excellent with only 74.3% and 69.4% score respectively. The result indicate that company still need to improve their procedures in identifying the present and potential financial value of intellectual capital as well as report it in the annual report.

The second variable focused on the establishment of procedures in identifying any possible threats to the present intellectual capital and resulted in a variance of 43.7%. Scores for both reporting and survey were poor with 14.3% and 58% respectively. The poor score and inconsistency in score indicate that company needs to establish procedure to address intellectual capital as company important assets and report it in the annual report.

The third variable addressed issues on board approval on company activities which promote knowledge workers. Both reporting and survey score indicate that company approves activities which promote knowledge workers and report it in the annual report. They recognize the important of human capital in the company.

The fourth variable indicates an inconsistency between reporting and survey. 75.9% of board and top management felt that company has established procedures in identifying, renewing and developing intellectual capital whereas only 31.4% of information concerning this matter being disclosed in the annual report. This has resulted with a 44.5% variance which indicates that company was not transparent enough in disclosing and reporting the information.

The fifth variable talks about company having formal and transparent staff promotional policy. A good score was obtained for survey but reporting only scores 60% resulting to 32.3% of variance. The result indicates that promotional staff policy in the company was formal and transparent but it was not well communicated in the annual report.

The second factor, Intellectual Capital 2 comprises four variables. This factor was referring to how board recognize the important of intellectual capital by including it in the company strategic planning agenda; approves the allocation of a large amount of expenditure to the employees or staff training and development; approves the company investment in IT related assets and company has a detail and formal staff health or safety measures.

Table 8.50 Intellectual Capital 2-Appreciation & implementation Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Board includes intellectual capital in the company strategic planning agenda	82.9	78.2	4.7
The board approves the allocation of a large amount of expenditure to the employees/staff training and development	77.1	90.7	13.6
The board approves the company investment in IT related assets	25.7	91.8	66.1
The company has detailed and formal staff health/safety measures	71.4	91.2	19.8

Table 8.50 shows corporate integrity for Intellectual Capital 2.

The variances calculated in table 8.53 ranges from 4.7% to 66.1%. A small variance calculated for the first variable indicates that Board includes intellectual capital in the company strategic planning agenda and report it in the annual report.

More than 90% of board and top management agreed about company allocating a large amount of expenditure for employees or staff training and development. The reporting concerning this matter only scored 77.1% which need improvement. Company have to be more transparent in reporting the amount of expenditure spends for staff training and development.

The variance calculated for the third variable was 66.1% indicating a really low integrity practice. About 91.8% of board and top management agreed that company invest in IT related assets but only 25.7% amount of information was disclosed in the annual report. Improvement on reporting was really crucial to ensure company practices were reflected in the annual report.

The last variable talks about company having detailed and formal staff health and safety measures which resulted with a 19.8% variance. There was a good score for survey but not for reporting. About 91.2% board and top management felt company have a detailed and formal staff health and safety measures but it was not well reported in the annual report. Company need to disclose more detail information concerning this matter in the annual report.

The above factors serve as an assessment on how board recognize intellectual capital as one of the most important assets in the company.

8.3.2.7 Disclosure

The last indicator refers to the company Board of Directors (BOD) responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be “transparent” in disclosing pertinent information to the shareholder. It indicates the extent to which the Board of Directors responsible in ensuring the management team disclosed it to the public.

The four factors resulted in the following factor labels: Disclosure 1, Disclosure 2, Disclosure 3 and Disclosure 4. The first factor, Disclosure 1 comprises five variables which were presented in Table 8.54. This factor addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report released to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship.

Table 8.51:Disclosure 1-Auditing, Audited Report & Board Responsibility Variables	Reporting (%)	Survey (%)	Variance (%)
Sufficient information on how Audit committee assess the adequacy of the internal audit annually by reviewing scope, result cost	94.3	95.1	0.8
Sufficient information on the company relationship with external auditor	100.0	86.8	13.2
Board responsible to ensure the company releases the audited report to the public within 120 days/ 4 months of the balance sheet day	100.0	93.5	6.5
Sufficient information on board understanding their responsibilities in maintaining sound system of company internal control	100.0	95.7	4.3
The company provides full disclosure of the independent director's responsibility and relationship	100.0	95.6	4.4

Table 8.51 shows corporate integrity for Disclosure1.

The score in table 8.51 presenting the benchmarking result for Disclosure 1 with a variances ranging from 0.8% to 13.2%. Four variables which address issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, time frame of the audited report released to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship resulted with a small variance. This indicates that the board responsible in ensuring all of the above information was disclosed in the annual report.

Information pertaining to company relationship with external auditor were excellently disclosed in the annual report but only 86.8% of board and top management perceive that the information available to the public. About 13.2% of board aren’t sure about their company reporting practice.

The second factor, Disclosure 2 comprises four variables which were presented in table 8.52. This factor addresses the importance of board understanding in safeguarding the shareholder investment and company assets. It also relates to how board make an assessment on company internal control status and measure. Disclosure of information on special business in the AGM notice and issues of lead control in the company were also included in this factor.

Table 8.52:Disclosure 2-Internal Control, AGM Notice & Lead Control Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Sufficient information on board understanding to safeguard shareholder investment and company asset is being disclose	100.0	97.2	2.8
Company discloses detail and sufficient information about special business in the AGM notice & full explanation of the effects	97.1	97.8	0.7
Sufficient information on how board makes an assessment on internal control status and measure	100.0	91.2	8.8
The company discloses the issues of lead control in the company	100.0	87.4	12.6

Table 8.52 shows corporate integrity for Disclosure 2.

Table 8.52 shows result for Disclosure 2 which variances ranging from 0.7% to 12.6%. Variables which address information on board understanding in safeguarding the shareholder investment and company assets and information about special business in the AGM notice shows a small variance percentage. This indicates that board and top management acknowledge the importance of the information disclosed to the public and they were also responsible to make sure it was available in the annual report.

The third variable addresses the importance of information on how board makes an assessment on internal control status and measure. Disclosure on this matter was excellent and majority of the board and top management realize the importance of this information available in the annual report.

The last variable looks into disclosure on issues of lead control in the company. Detail information concerning this matter was reported in the annual report but only 87.4% of board and top management agreed that their company management team disclose it in the annual report. The discrepancy in reporting and survey score indicates that 12.6% of board and top management aren't sure whether this information was available in the annual report.

The third factor, Disclosure 3 comprises of three variables which talk about disclosure on independent director's calibre, credibility, skill and experience. It also refers to information on third party related transactions. Information about the formation and role of remuneration committee was also expected to be disclosed in the annual report.

Table 8.53:Disclosure 3-Board Profile, Third Party Transaction & Remuneration Committee Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
The company discloses detail & sufficient information about independent director's calibre, credibility, skill and experience	100.0	96.1	3.9
Sufficient information about the third party related transactions	88.6	97.9	9.3
Sufficient and transparent information on the formation and role of remuneration committee disclosed in the annual report	100.0	83.1	16.9

Table 8.53 shows corporate integrity for Disclosure 3.

Table 8.53 present benchmarking result for Disclosure 3. The variances calculated ranging from 3.9% to 16.9%. The first variable obtained a perfect score of 100% for reporting and majority of the board and top management also confident that the management team disclosed this information in the annual report. This indicates that the board responsible in ensuring their company disclosed detail and sufficient information about independent director's calibre, credibility, skill and experience in the annual report.

The second variable showed that survey scores were better than the reporting scores. Majority of the board and top management perceived that information about the third party related transactions were sufficiently reported in the annual report whereas only 88.6% were scored for reporting. A variance of 9.3% was calculated and it indicates that the board and top management perception regarding the importance of this information made available to the public was not being disclosed enough in the annual report.

The last variable addresses the issues on the formation and role of remuneration committee being sufficiently and transparently disclosed in the annual report. A perfect score was obtained for reporting but only 83.1% was score for survey. About 16.9% of board and top management felt this information was not reported in the annual report. This indicates that some of the board and top management were not aware about their company reporting practices.

The last factor, Disclosure 4 was about disclosing information on individual director remuneration and other benefit. This factor also refers to disclosure on additional contribution by non-executive director in the annual report.

Table 8.54:Disclosure 4-Board Remuneration & Benefit Variables	**Reporting (%)**	**Survey (%)**	**Variance (%)**
Company disclose detail and sufficient information of remuneration and other benefit received by individual directors	31.4	77.6	46.2
Company discloses detail and sufficient information of additional contribution received by non-executive directors	34.3	78.7	44.4

Table 8.54 shows corporate integrity for Disclosure 4.

Table 8.54 shows variance calculation for Disclosure 4 which ranging from 44.4% to 46.2%. The first variable talks about detail disclosure on remuneration and other benefit received by individual directors. About 77.6% of board and top management perceived the importance of the information made available to the public and believe that their company disclosed it the annual report. Reporting on the other hand scored badly with only 31.4% score. This has resulted with quite a significant variance which value at 46.2% indicating that the board and top management need to ensure the management team disclosed sufficient information in the annual report as a show of responsibility towards the public.

The second variable explained about company discloses detail and sufficient information on additional contribution received by non-executive directors. About 78.7% of board and top management felt that their company annual report disclosed this information sufficiently but only 34.3% was scored for reporting. This indicates that board and top management perception on the important of the information made available to the public were not reflected in the annual report.

The above factors assess Board of Directors responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be “transparent” in disclosing pertinent information to the shareholder.

The last section of the chapter presents the relationship between company integrity with company performance. A linear regression was used to explore such relationship.

8.4 Integrity and Performance

8.4.1 Corporate integrity and company performance

The last section of this chapter presents the relationship between company integrity and company performance. The research explored the relationship between company performance and corporate integrity for government link companies. A linear regression was used to explore such relationship.

The findings were presented based on the factors indentified earlier. The factors scores were regress against the company performance. The performance was proxies by Return on Capital Employed (ROC), Return on Asset (ROA), Return on Operating Cash Flow (CFA) and Tobin’s Q. Return on capital employed (ROC) was calculated by dividing net profit before interest and tax with shareholders fund. For Return on asset (ROA), the formula used was net profit before interest and tax divided with total assets. Return on operating cash flow (CFA) was calculated by dividing operating cash flow and total assets. The last measurement used for performance was Tobin’s Q which compares market value of asset with book value of asset.

8.4.2 Regression analysis

A standard or simultaneous multiple regressions were used in this research to address the last research question which explores the relationship between company performance and corporate integrity. The analysis can tell how well the governance factors were able to predict the company performance. It provides information about the model as a whole and the relatives’ contribution of each of the variables that make up the model. It also tells how much unique variance each of the independent variables (governance indicators) explains in the dependent variable (company performance), over and above the other independent variables included in the factor.

8.4.2.1 Correlations profiles

Multiple regressions don't like multicollinearity as these certainly don't contribute to a good regression model. In order to determine the appropriate variable to be used in regression analysis, a correlation analysis between the independent variables (governance factors) with the dependent variable (company performance) was run. This was to check the independent variables show at least some relationship with the dependent variables, preferably above 0.3. The correlations between each of the independent variables (governance factors) were also checked to ensure it was not too high. Tabachnick and Fidell (2001) suggest that the correlations should be 0.7 or less in order to retain all variables in the model. A 'collinearity diagnostics' was also performed on the variables as part of multiple regression procedure and the value used was tolerance value ($1-R^2$). The cut off points to determine the presence of multicollinearity was the tolerance value of less than .10. The analysis can pick up on problems with multicollinearity that may not be evident in the correlation matrix.

Table 8.55 present multicollinearity assumptions checking for directors' factors and Return on Capital Employed (ROC). The directors' factors show at least some relationship with the ROC. There was no correlation between each of the directors' factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.55: Pearson's Correlation Coefficient between Directors factors and Return on Capital (ROC) (and collinearity statistics)

	ROC	Dir 1	Dir 2	Dir 3	Dir 4	Dir 5	Dir 6	Dir 7	Dir 8	Dir 9	Tolerance $1-R^2$
ROC	1.000										
Dir 1	.242	1.000									1.000
Dir 2	.404	.000	1.000								1.000
Dir 3	.131	.000	.000	1.000							1.000
Dir 4	.250	.000	.000	.000	1.000						1.000
Dir 5	.188	.000	.000	.000	.000	1.000					1.000
Dir 6	.030	.000	.000	.000	.000	.000	1.000				1.000
Dir 7	-.038	.000	.000	.000	.000	.000	.000	1.000			1.000
Dir 8	-.343	.000	.000	.000	.000	.000	.000	.000	1.000		1.000
Dir 9	-.307	.000	.000	.000	.000	.000	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROC.

Table 8.56 present multicollinearity assumptions checking for directors' factors and Return on Asset (ROA). The directors' factors show at least some relationship with the ROA. There was no correlation between each of the directors' factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.56: Pearson's Correlation Coefficient between Directors factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Dir 1	Dir 2	Dir 3	Dir 4	Dir 5	Dir 6	Dir 7	Dir 8	Dir 9	Tolerance $1-R^2$
ROA	1.000										
Dir 1	.027	1.000									1.000
Dir 2	.331	.000	1.000								1.000
Dir 3	.295	.000	.000	1.000							1.000

Dir 4	-.016	.000	.000	.000	1.000						1.000
Dir 5	.094	.000	.000	.000	.000	1.000					1.000
Dir 6	-.183	.000	.000	.000	.000	.000	1.000				1.000
Dir 7	.106	.000	.000	.000	.000	.000	.000	1.000			1.000
Dir 8	-.338	.000	.000	.000	.000	.000	.000	.000	1.000		1.000
Dir 9	-.286	.000	.000	.000	.000	.000	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROA.

Table 8.57 present multicollinearity assumptions checking for directors' factors and Return on Operating Cash Flow (CFA). The directors' factors show at least some relationship with the CFA. There was no correlation between each of the directors' factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.57: Pearson's Correlation Coefficient between Directors factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Dir 1	Dir 2	Dir 3	Dir 4	Dir 5	Dir 6	Dir 7	Dir 8	Dir 9	Tolerance $1\text{-}R^2$
CFA	1.000										
Dir 1	.173	1.000									1.000
Dir 2	-.288	.000	1.000								1.000
Dir 3	.136	.000	.000	1.000							1.000
Dir 4	-.067	.000	.000	.000	1.000						1.000
Dir 5	-.156	.000	.000	.000	.000	1.000					1.000
Dir 6	.036	.000	.000	.000	.000	.000	1.000				1.000
Dir 7	.120	.000	.000	.000	.000	.000	.000	1.000			1.000
Dir 8	-.048	.000	.000	.000	.000	.000	.000	.000	1.000		1.000
Dir 9	-.072	.000	.000	.000	.000	.000	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: CFA.

Table 8.58 present multicollinearity assumptions checking for directors' factors and Tobin's Q. The directors' factors show at least some relationship with the Tobin's Q. There was no correlation between each of the independent variables and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.58: Pearson's Correlation Coefficient between Directors factors and Tobin's Q (and collinearity statistics)

	Tobins Q	Dir 1	Dir 2	Dir 3	Dir 4	Dir 5	Dir 6	Dir 7	Dir 8	Dir 9	Tolerance 1-R^2
TobinsQ	1.000										
Dir 1	-.363	1.000									1.000
Dir 2	-.112	.000	1.000								1.000
Dir 3	.023	.000	.000	1.000							1.000
Dir 4	-.120	.000	.000	.000	1.000						1.000
Dir 5	-.422	.000	.000	.000	.000	1.000					1.000
Dir 6	-.229	.000	.000	.000	.000	.000	1.000				1.000
Dir 7	.333	.000	.000	.000	.000	.000	.000	1.000			1.000
Dir 8	.057	.000	.000	.000	.000	.000	.000	.000	1.000		1.000
Dir 9	.147	.000	.000	.000	.000	.000	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: Tobin's Q.

Table 8.59 present multicollinearity assumptions checking for directors' remuneration factors and Return on Capital Employed (ROC). The directors' remuneration factors show at least some relationship with the ROC. There was no correlation between each of the directors' remuneration factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.59: Pearson's Correlation Coefficient between Directors' Remuneration factors and Return on Capital (ROC) (and collinearity statistics)

	ROC	Dir Rem1	Dir Rem2	Dir Rem3	Tolerance $1-R^2$
ROC	1.000				
Dir Rem1	.425	1.000			1.000
Dir Rem2	.123	.000	1.000		1.000
Dir Rem3	-.034	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROC.

Table 8.60 present multicollinearity assumptions checking for directors' remuneration factors and Return on Asset (ROA). The directors' remuneration factors show at least some relationship with the ROA. There was no correlation between each of the directors' remuneration factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.60: Pearson's Correlation Coefficient between Directors' Remuneration factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Dir Rem1	Dir Rem2	Dir Rem3	Tolerance $1-R^2$
ROA	1.000				
Dir Rem1	.343	1.000			1.000
Dir Rem2	-.085	.000	1.000		1.000
Dir Rem3	-.160	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROA.

Table 8.61 present multicollinearity assumptions checking for directors' remuneration factors and Return on Operating Cash Flow (CFA). The directors' remuneration factors show at least some relationship with the CFA. There was no correlation between each of the directors' remuneration factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.61: Pearson's Correlation Coefficient between Directors' Remuneration factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Dir Rem1	Dir Rem2	Dir Rem3	Tolerance $1\text{-}R^2$
CFA	1.000				
Dir Rem1	.005	1.000			1.000
Dir Rem2	-.123	.000	1.000		1.000
Dir Rem3	-.158	.000	.000	1.000	1.000

N = 183, Dependent Variable: CFA.

Table 8.62 present multicollinearity assumptions checking for directors' remuneration factors and Tobin's Q. The directors' remuneration factors show at least some relationship with the Tobin's Q. There was no correlation between each of the directors' remuneration factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.62: Pearson's Correlation Coefficient between Directors' Remuneration factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	TobinsQ	Dir Rem1	Dir Rem2	Dir Rem3	Tolerance $1\text{-}R^2$
TobinsQ	1.000				
Dir Rem1	-.244	1.000			1.000
Dir Rem2	-.226	.000	1.000		1.000
Dir Rem3	-.060	.000	.000	1.000	1.000

N = 183, Dependent Variable: Tobin's Q.

Table 8.63 present multicollinearity assumptions checking for shareholders factors and Return on Capital Employed (ROC). The shareholders factors show at least some relationship with the ROC. There was no correlation between each of the shareholders factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.63: Pearson's Correlation Coefficient between Shareholders factors and Return on Capital Employed (ROC) (and collinearity statistics)

	ROC	Shareholder1	Shareholder2	Shareholder3	Shareholder4	Tolerance $1\text{-}R^2$
ROC	1.000					
Shareholder1	.380	1.000				1.000
Shareholder2	.085	.000	1.000			1.000
Shareholder3	.056	.000	.000	1.000		1.000
Shareholder4	.050	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROC.

Table 8.64 present multicollinearity assumptions checking for shareholders factors and Return on Asset (ROA). The shareholders factors show at least some relationship with the ROA. There was no correlation between each of the shareholders factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.64: Pearson's Correlation Coefficient between Shareholders factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Shareholder1	Shareholder2	Shareholder3	Shareholder4	Tolerance $1\text{-}R^2$
ROA	1.000					
Shareholder1	.237	1.000				1.000
Shareholder2	.099	.000	1.000			1.000

Shareholder3	-.164	.000	.000	1.000		1.000
Shareholder4	.080	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROA.

Table 8.65 present multicollinearity assumptions checking for shareholders factors and Return on Operating Cash Flow (CFA). The shareholders factors show at least some relationship with the CFA. There was no correlation between each of the shareholders factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.65: Pearson's Correlation Coefficient between Shareholders factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Shareholder1	Shareholder2	Shareholder3	Shareholder4	Tolerance $1\text{-}R^2$
CFA	1.000					
Shareholder1	-.372	1.000				1.000
Shareholder2	-.145	.000	1.000			1.000
Shareholder3	.115	.000	.000	1.000		1.000
Shareholder4	-.047	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: CFA.

Table 8.66 present multicollinearity assumptions checking for shareholders factors and Tobin's Q. The shareholders factors show at least some relationship with the Tobin's Q. There was no correlation between each of the shareholders factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.66: Pearson's Correlation Coefficient between Shareholders factors and Tobin's Q (and collinearity statistics)

	Tobin'sQ	Shareholder1	Shareholder2	Shareholder3	Shareholder4	Tolerance $1-R^2$
Tobin'sQ	1.000					
Shareholder1	-.433	1.000				1.000
Shareholder2	.240	.000	1.000			1.000
Shareholder3	-.418	.000	.000	1.000		1.000
Shareholder4	-.017	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: Tobin's Q.

Table 8.67 present multicollinearity assumptions checking for accountability & audit factors and Return on Capital Employed (ROC). The accountability & audit factors show at least some relationship with the ROC. There was no correlation between each of the accountability & audit factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.67: Pearson's Correlation Coefficient between Accountability & Audit factors and Return on Capital Employed (ROC) (and collinearity statistics)

	ROC	Acc & Aud1	Acc & Aud2	Acc & Aud3	Acc & Aud4	Tolerance $1-R^2$
ROC	1.000					
Acc & Aud1	.298	1.000				1.000
Acc & Aud2	-.024	.000	1.000			1.000
Acc & Aud3	.081	.000	.000	1.000		1.000
Acc & Aud4	.179	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROC

Table 8.68 present multicollinearity assumptions checking for accountability & audit factors and Return on Asset (ROA). The accountability & audit factors show at least some relationship with the ROA. There was no correlation between each of the accountability & audit factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.68: Pearson's Correlation Coefficient between Accountability & Audit factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Acc & Aud1	Acc & Aud2	Acc & Aud3	Acc & Aud4	Tolerance $1-R^2$
ROA	1.000					
Acc & Aud1	.224	1.000				1.000
Acc & Aud2	-.397	.000	1.000			1.000
Acc & Aud3	.035	.000	.000	1.000		1.000
Acc & Aud4	.250	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROA

Table 8.69 present multicollinearity assumptions checking for accountability & audit factors and Return on Operating Cash Flow (CFA). The accountability & audit factors show at least some relationship with the CFA. There was no correlation between each of the accountability & audit factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.69: Pearson's Correlation Coefficient between Accountability & Audit factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Acc & Aud1	Acc & Aud2	Acc & Aud3	Acc & Aud4	Tolerance $1-R^2$
CFA	1.000					
Acc & Aud1	-.014	1.000				1.000
Acc & Aud2	-.054	.000	1.000			1.000
Acc & Aud3	-.274	.000	.000	1.000		1.000
Acc & Aud4	-.134	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: CFA

Table 8.70 present multicollinearity assumptions checking for accountability & audit factors and Tobin's Q. The accountability & audit factors show at least some relationship with the Tobin's Q. There was no correlation between each of the accountability & audit factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.70: Pearson's Correlation Coefficient between Accountability & Audit factors and Tobin's Q (and collinearity statistics)

	TobinsQ	Acc & Aud1	Acc & Aud2	Acc & Aud3	Acc & Aud4	Tolerance $1-R^2$
TobinsQ	1.000					
Acc & Aud1	-.360	1.000				1.000
Acc & Aud2	-.413	.000	1.000			1.000
Acc & Aud3	.093	.000	.000	1.000		1.000
Acc & Aud4	-.153	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: Tobin's Q.

Table 8.71 present multicollinearity assumptions checking for business ethics & responsibility factors and Return on Capital Employed (ROC). The business ethics & responsibility factors show at least some relationship with the ROC. There was no correlation between each of the business ethics & responsibility factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.71: Pearson's Correlation Coefficient between Business Ethics & Responsibility factors and Return on Capital Employed (ROC) (and collinearity statistics)

	ROC	Business Ethics & Responsibility 1	Tolerance $1-R^2$
ROC	1.000		
Business Ethics & Responsibility 1	.463	1.000	1.000

N = 183, Dependent Variable: ROC.

Table 8.72 present multicollinearity assumptions checking for business ethics & responsibility factors and Return on Asset (ROA). The business ethics & responsibility factors show at least some relationship with the ROA. There was no correlation between each of the business ethics & responsibility factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.72: Pearson's Correlation Coefficient between Business Ethics & Responsibility factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Business Ethics & Responsibility 1	Tolerance $1-R^2$
ROA	1.000		
Business Ethics & Responsibility 1	.193	1.000	1.000

N = 183, Dependent Variable: ROA.

Table 8.73 present multicollinearity assumptions checking for business ethics & responsibility factors and Return on Operating Cash Flow (CFA). The business ethics & responsibility factors show at least some relationship with the CFA. There was no correlation between each of the business ethics & responsibility factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.73: Pearson's Correlation Coefficient between Business Ethics & Responsibility factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Business Ethics & Responsibility 1	Tolerance $1\text{-}R^2$
CFA	1.000		
Business Ethics & Responsibility 1	-.269	1.000	1.000

N = 183, Dependent Variable: CFA.

Table 8.74 present multicollinearity assumptions checking for business ethics & responsibility factors and Tobin's Q. The business ethics & responsibility factors show at least some relationship with the Tobin's Q. There was no correlation between each of the business ethics & responsibility factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.74: Pearson's Correlation Coefficient between Business Ethics & Responsibility factors and Tobin's Q (and collinearity statistics)

	TobinsQ	Business Ethics & Responsibility 1	Tolerance $1\text{-}R^2$
Tobins Q	1.000		
Business Ethics & Responsibility 1	-.442	1.000	1.000

N = 183, Dependent Variable: Tobin's Q.

Table 8.75 present multicollinearity assumptions checking for intellectual capital factors and Return on Capital Employed (ROC). The intellectual capital factors show at least some relationship with the ROC. There was no correlation between each of the intellectual capital factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.75: Pearson's Correlation Coefficient between Intellectual Capital factors and Return on Capital Employed (ROC) (and collinearity statistics)

	ROC	Intellectual Capital 1	Intellectual Capital 2	Tolerance $1\text{-}R^2$
ROC	1.000			
Intellectual Capital 1	-.012	1.000		1.000
Intellectual Capital 2	.540	.000	1.000	1.000

N = 183, Dependent Variable: ROC

Table 8.76 present multicollinearity assumptions checking for intellectual capital factors and Return on Asset (ROA). The intellectual capital factors show at least some relationship with the ROA. There was no correlation between each of the intellectual capital factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.76: Pearson's Correlation Coefficient between Intellectual Capital factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Intellectual Capital 1	Intellectual Capital 2	Tolerance $1\text{-}R^2$
ROA	1.000			
Intellectual Capital 1	-.165	1.000		1.000
Intellectual Capital 2	.477	.000	1.000	1.000

N = 183, Dependent Variable: ROA

Table 8.77 present multicollinearity assumptions checking for intellectual capital factors and Return on Operating Cash Flow (CFA). The intellectual capital factors show at least some relationship with the CFA. There was no correlation between each of the intellectual capital factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.77: Pearson's Correlation Coefficient between Intellectual Capital factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Intellectual Capital 1	Intellectual Capital 2	Tolerance $1-R^2$
CFA	1.000			
Intellectual Capital 1	.015	1.000		1.000
Intellectual Capital 2	-.127	.000	1.000	1.000

N = 183, Dependent Variable: CFA

Table 8.78 present multicollinearity assumptions checking for intellectual capital factors and Tobin's Q. The intellectual capital factors show at least some relationship with the Tobin's Q. There was no correlation between each of the intellectual capital factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.78: Pearson's Correlation Coefficient between Intellectual Capital factors and Tobin's Q (and collinearity statistics)

	Tobin's Q	Intellectual Capital 1	Intellectual Capital 2	Tolerance $1-R^2$
Tobin's Q	1.000			
Intellectual Capital 1	-.202	1.000		1.000
Intellectual Capital 2	-.359	.000	1.000	1.000

N = 183, Dependent Variable: Tobin's Q

Table 8.79 present multicollinearity assumptions checking for disclosure factors and Return on Capital Employed (ROC). The disclosure factors show at least some relationship with the ROC. There was no correlation between each of the disclosure factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.79: Pearson's Correlation Coefficient between Disclosure factors and Return on Capital Employed (ROC) (and collinearity statistics)

	ROC	Disclosure 1	Disclosure 2	Disclosure 3	Disclosure 4	Tolerance $1\text{-}R^2$
ROC	1.000					
Disclosure 1	.478	1.000				1.000
Disclosure 2	.219	.000	1.000			1.000
Disclosure 3	.206	.000	.000	1.000		1.000
Disclosure 4	-.330	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROC

Table 8.80 present multicollinearity assumptions checking for disclosure factors and Return on Asset (ROA). The disclosure factors show at least some relationship with the ROA. There was no correlation between each of the disclosure factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.80: Pearson's Correlation Coefficient between Disclosure factors and Return on Asset (ROA) (and collinearity statistics)

	ROA	Disclosure 1	Disclosure 2	Disclosure 3	Disclosure 4	Tolerance $1-R^2$
ROA	1.000					
Disclosure 1	.010	1.000				1.000
Disclosure 2	.240	.000	1.000			1.000
Disclosure 3	.374	.000	.000	1.000		1.000
Disclosure 4	-.251	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: ROA

Table 8.82 present multicollinearity assumptions checking for disclosure factors and Return on Operating Cash Flow (CFA). The disclosure factors show at least some relationship with the CFA. There was no correlation between each of the disclosure factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.81: Pearson's Correlation Coefficient between Disclosure factors and Return on Operating Cash Flow (CFA) (and collinearity statistics)

	CFA	Disclosure 1	Disclosure 2	Disclosure 3	Disclosure 4	Tolerance $1-R^2$
CFA	1.000					
Disclosure 1	-.339	1.000				1.000
Disclosure 2	.131	.000	1.000			1.000
Disclosure 3	-.074	.000	.000	1.000		1.000
Disclosure 4	-.176	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: CFA

Table 8.82 present multicollinearity assumptions checking for disclosure factors and Tobin's Q. The disclosure factors show at least some relationship with the Tobin's Q.

There was no correlation between each of the disclosure factors and the tolerance values were 1.000 indicating there was no present of multicollinearity. Therefore the multicollinearity assumption has not been violated.

Table 8.82: Pearson's Correlation Coefficient between Disclosure factors and Tobin's Q (and collinearity statistics)

	Tobins Q	**Disclosure 1**	**Disclosure 2**	**Disclosure 3**	**Disclosure 4**	**Tolerance $1\text{-}R^2$**
Tobins Q	1.000					
Disclosure 1	-.492	1.000				1.000
Disclosure 2	-.135	.000	1.000			1.000
Disclosure 3	-.057	.000	.000	1.000		1.000
Disclosure 4	-.083	.000	.000	.000	1.000	1.000

N = 183, Dependent Variable: Tobin's Q

The above results check on assumptions for standard multiple regressions in order to ensure a good multiple regression models were establish for further analysis. The correlations assumption was not violated, therefore all factors were retained and the multicollinearity assumption was not being violated.

8.4.2.2 Model evaluation

Once the multiple regression models have been confirmed, evaluation on the model was conducted. R Square value was used to tell how much of the variance in the dependent variable (company performance) was explained by the model which includes the independent variables (governance factors). The statistical significance of the results was also tested. This was by testing the null hypothesis that multiple R in the population equals 0.

Table 8.83 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that directors factors explains 55.2% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that directors factors explains 44.7% of the variance in perceived of Return on Asset (ROA), Model 3 means that directors factors explains 18.3% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that directors factors explains 52.6% of the variance in perceived of Tobin's Q. The entire model reaches statistical significance (Sig= .000, means p < .0005).

Table 8.83: Model Summary and ANOVA

Model	Coefficient of Determination - R Square	Sig.
1	.552	.000
2	.447	.000
3	.183	.000
4	.526	.000

Predictors: Directors factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

Table 8.84 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that directors' remuneration factors explains 19.7% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that directors' remuneration factors explains 15.1% of the variance in perceived of Return on Asset (ROA), Model 3 means that directors' remuneration factors explains 4.0% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that directors' remuneration factors explains 11.4% of the variance in perceived of Tobin's Q. The entire model reaches statistical significance (Sig= .000, means p < .0005) except for Model 3.

Table 8.84: Model Summary and ANOVA		
Model	**Coefficient of Determination - R Square**	**Sig.**
1	.197	.000
2	.151	.000
3	**.040**	**.061**
4	.114	.000

Predictors: Directors' Remuneration factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

Table 8.85 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that shareholders factors explains 15.7% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that shareholders factors explains 10.0% of the variance in perceived of Return on Asset (ROA), Model 3 means that shareholders factors explains 17.5% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that shareholders factors explains 42.0% of the variance in perceived of Tobin's Q. The entire model reaches statistical significance (Sig= .000, means $p < .0005$) except for Model 2.

Table 8.85: Model Summary and ANOVA		
Model	**Coefficient of Determination - R Square**	**Sig.**
1	.157	.000
2	**.100**	**.001**
3	.175	.000
4	.420	.000

Predictors: Shareholders factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

Table 8.86 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that accountability & audit factors explains 12.8% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that accountability & audit factors explains 27.2% of the variance in perceived of Return on Asset (ROA), Model 3 means that accountability & audit factors explains 9.6% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that accountability & audit factors explains 33.2% of the variance in perceived of Tobin's Q. All of the model reaches statistical significance (Sig= .000, means p < .0005) except for Model 3.

Table 8.86: Model Summary and ANOVA

Model	Coefficient of Determination - R Square	Sig.
1	.128	.000
2	.272	.000
3	**.096**	**.001**
4	.332	.000

Predictors: Accountability & Audit factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

Table 8.87 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that business ethics & responsibility factors explains 21.4% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that business ethics & responsibility factors explains 3.7% of the variance in perceived of Return on Asset (ROA), Model 3 means that business ethics & responsibility factors explains 7.3% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that business ethics & responsibility factors explains 19.5% of the variance in perceived of Tobin's

Q. The entire model reaches statistical significance (Sig= .000, means p < .0005) except for Model 2.

Table 8.87: Model Summary and ANOVA

Model	Coefficient of Determination - R Square	Sig.
1	.214	.000
2	**.037**	**.009**
3	.073	.000
4	.195	.000

Predictors: Business Ethics & Responsibility factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

Table 8.88 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that intellectual capital factors explains 29.2% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that intellectual capital factors explains 25.5% of the variance in perceived of Return on Asset (ROA), Model 3 means that intellectual capital factors explains 1.6% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that intellectual capital factors explains 16.9% of the variance in perceived of Tobin's Q. The entire model reaches statistical significance (Sig= .000, means p < .0005) except for Model 3.

Table 8.88: Model Summary and ANOVA

Model	Coefficient of Determination - R Square	Sig.
1	.292	.000
2	.255	.000
3	**.016**	**.226**
4	.169	.000

Predictors: Intellectual Capital factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

Table 8.89 reports on the strength of the relationship between the model and the dependent variable (Company performance). Model 1 means that disclosure factors explains 42.8% of the variance in perceived of Return on Capital Employed (ROC), Model 2 means that disclosure factors explains 26.0% of the variance in perceived of Return on Asset (ROA), Model 3 means that disclosure factors explains 16.9% of the variance in perceived of Return on Operating Cash Flow (CFA) and Model 4 means that disclosure factors explains 27.0% of the variance in perceived of Tobin's Q. The entire model reaches statistical significance (Sig= .000, means p < .0005).

Table 8.89: Model Summary and ANOVA

Model	Coefficient of Determination - R Square	Sig.
1	.428	.000
2	.260	.000
3	.169	.000
4	.270	.000

Predictors: Disclosure factors
Dependent Variables: ROC, ROA, CFA and Tobin's Q

The model summary table reports the strength of the relationship between the model and the company performance. It shows the percentage of variance in the company performance explained by the model. The results also assess its statistical significance. While the above results present the model's ability to explain any variation in the company performance, it did not identify which governance factors included in the model contributed to the prediction of the company performance. In the next stage, each of the governance factors was evaluated in order to identify its unique contribution to the prediction of the company performance.

8.4.2.3 Independent variables evaluation

The evaluation of each independent variable (governance factors) tells which of the variables included in the model contributed to the prediction of the dependent variable (company performance). Beta value under standardised coefficients was used to evaluate each of the governance factors. The larger the Beta value indicates that the governance factor makes the strongest unique contribution to explaining the company performance, when the variance explained by all other factors in the model is controlled for. The governance factors were also checked if it makes a statistically significant unique contribution to the prediction of the company performance. Sig. value was used to check on the statistical significant by using cut off point of less than .01. If the Sig. value is less than .01, then the factor was making a significant unique contribution to the prediction of the company performance and if the value was greater than .01, it can be concluded that the factor was not making a significant unique contribution to the prediction of the performance.

Table 8.90 shows that the largest beta coefficient was .404 which refers to Director 2, which means that it makes the strongest unique contribution to explaining the ROC when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Director 8 followed by Director 9, Director 4, Director 1, Director 5, Director 3, Director 7 and lastly Director 6. All of the factors were making a significant unique contribution to the prediction of the ROC except for Director 6 and Director 7.

Table 8.90: Coefficient between Directors factors and Return on Capital (ROC)

	Standardised Coefficients Beta	Sig.
Director 1	.242	.000
Director 2	.404	.000
Director 3	.131	.011
Director 4	.250	.000
Director 5	.188	.000
Director 6	**.030**	**.550**
Director 7	**-.038**	**.460**
Director 8	-.343	.000
Director 9	-.307	.000

Dependent Variable: ROC.

Table 8.91 shows that the largest beta coefficient was -.338 which was from Director 8, which means that it makes the strongest unique contribution to explaining the ROA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Director 2 followed by Director 3, Director 9, Director 6, Director 7, Director 5, Director 1 and lastly Director 4. All of the factors were making a significant unique contribution to the prediction of the ROA except for Director 1, Director 4, Director 5 and Director 7.

Table 8.91: Coefficient between Directors factors and Return on Asset (ROA)

	Standardised Coefficients Beta	Sig.
Director 1	**.027**	**.633**
Director 2	.331	.000
Director 3	.295	.000
Director 4	**-.016**	**.775**
Director 5	**.094**	**.097**
Director 6	-.183	.001
Director 7	**.106**	**.063**
Director 8	-.338	.000
Director 9	-.286	.000

Dependent Variable: ROA.

Table 8.92 shows that the largest beta coefficient is -.288 which was for Director 2, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Director 1 followed by Director 5, Director 3, Director 7, Director 9, Director 4, Director 8 and lastly Director 6. All of the factors were not making a significant unique contribution to the prediction of the CFA except for Director 1 and Director 2.

Table 8.92: Coefficient between Directors factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients	Sig.
	Beta	
Director 1	.173	.013
Director 2	-.288	.000
Director 3	**.136**	**.050**
Director 4	**-.067**	**.330**
Director 5	**-.156**	**.025**
Director 6	**.036**	**.599**
Director 7	**.120**	**.082**
Director 8	**-.048**	**.483**
Director 9	**-.072**	**.298**

Dependent Variable: CFA.

Table 8.93 shows that the largest beta coefficient was -.422 which refers to Director 5, which means that it makes the strongest unique contribution to explaining the Tobin's Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Director 1 followed by Director 7, Director 6, Director 9, Director 4, Director 2, Director 8 and lastly Director 3. All of the factors were making a significant unique contribution to the prediction of the Tobin's Q except for Director 2, Director 3, Director 4 and Director 8.

Table 8.93: Coefficient between Directors factors and Tobin's Q

	Standardised Coefficients Beta	Sig.
Director 1	-.363	.000
Director 2	**-.112**	**.035**
Director 3	**.023**	**.660**
Director 4	**-.120**	**.023**
Director 5	-.422	.000
Director 6	-.229	.000
Director 7	.333	.000
Director 8	**.057**	**.281**
Director 9	.147	.006

Dependent Variable: Tobin's Q.

Table 8.94 shows that the largest beta coefficient was -.288 which was for Director 2, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Director 1 followed by Director 5, Director 3, Director 7, Director 9, Director 4, Director 8 and lastly Director 6. All of the factors were not making a significant unique contribution to the prediction of the CFA except for Director 1 and Director 2.

Table 8.94: Coefficient between Directors factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients	Sig.
	Beta	
Director 1	.173	.013
Director 2	-.288	.000
Director 3	**.136**	**.050**
Director 4	**-.067**	**.330**
Director 5	**-.156**	**.025**
Director 6	**.036**	**.599**
Director 7	**.120**	**.082**
Director 8	**-.048**	**.483**
Director 9	**-.072**	**.298**

Dependent Variable: CFA.

Table 8.95 shows that the largest beta coefficient was -.422 which refers to Director 5, which means that it makes the strongest unique contribution to explaining the Tobin's Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Director 1 followed by Director 7, Director 6, Director 9, Director 4, Director 2, Director 8 and lastly Director 3. All of the factors were making a significant unique contribution to the prediction of the Tobin's Q except for Director 2, Director 3, Director 4 and Director 8.

Table 8.95: Coefficient between Directors factors and Tobin's Q

	Standardised Coefficients Beta	Sig.
Director 1	-.363	.000
Director 2	**-.112**	**.035**
Director 3	**.023**	**.660**
Director 4	**-.120**	**.023**
Director 5	-.422	.000
Director 6	-.229	.000
Director 7	.333	.000
Director 8	**.057**	**.281**
Director 9	.147	.006

Dependent Variable: Tobin's Q.

Table 8.96 shows that the largest beta coefficient was .425 that was for Directors Remuneration 1, which means that it makes the strongest unique contribution to explaining the ROC when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Directors' Remuneration 2 and followed by Directors' Remuneration 3. All of the factors were not making a significant unique contribution to the prediction of the ROC except for Directors' Remuneration 1.

Table 8.96: Coefficient between Directors' Remuneration factors and Return on Capital Employed (ROC)

	Standardised Coefficients Beta	Sig.
Directors' Remuneration 1	.425	.000
Directors' Remuneration 2	**.123**	**.068**
Directors' Remuneration 3	**-.034**	**.609**

Dependent Variable: ROC.

Table 8.97 shows that the largest beta coefficient was .343 which refers to Directors Remuneration 1, which means that it makes the strongest unique contribution to explaining the ROA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Directors' Remuneration 3 and followed by Directors' Remuneration 2. All of the factors were not making a significant unique contribution to the prediction of the ROA except for Directors' Remuneration 1.

Table 8.97: Coefficient between Directors' Remuneration factors and Return on Asset (ROA)

	Standardised Coefficients	**Sig.**
	Beta	
Directors' Remuneration 1	.343	.000
Directors' Remuneration 2	**-.085**	**.221**
Directors' Remuneration 3	**-.160**	**.021**

Dependent Variable: ROA.

Table 8.98 shows that the largest beta coefficient was -.158 that refers to Directors Remuneration 3, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Directors' Remuneration 3 and followed by Directors' Remuneration 2. All of the factors were not making a significant unique contribution to the prediction of the CFA.

Table 8.98: Coefficient between Directors' Remuneration factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients	Sig.
	Beta	
Directors' Remuneration 1	**.005**	**.946**
Directors' Remuneration 2	**-.123**	**.094**
Directors' Remuneration 3	**-.158**	**.032**

Dependent Variable: CFA.

Table 8.99 shows that the largest beta coefficient was -.244 which refers to Directors Remuneration 1, which means that it makes the strongest unique contribution to explaining the Tobin's Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Directors' Remuneration 2 and followed by Directors' Remuneration 3. All of the factors were making a significant unique contribution to the prediction of the Tobin's Q except for Directors' Remuneration 3.

Table 8.99: Coefficient between Directors' Remuneration factors and Tobin's Q

	Standardised Coefficients	Sig.
	Beta	
Directors' Remuneration 1	-.244	.001
Directors' Remuneration 2	-.226	.002
Directors' Remuneration 3	**-.060**	**.393**

Dependent Variable: Tobin's Q.

Table 8.100 shows that the largest beta coefficient was .380 which was for Shareholders 1, which means that it makes the strongest unique contribution to explaining the ROC when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Shareholders 2 followed by Shareholders 3 and finally Shareholders 4. All of the factors were not making a significant unique contribution to the prediction of the ROC except for Shareholders 1.

Table 8.100: Coefficient between Shareholders factors and Return on Capital Employed (ROC)

	Standardised Coefficients Beta	Sig.
Shareholders 1	.380	.000
Shareholders 2	**.085**	**.217**
Shareholders 3	**.056**	**.419**
Shareholders 4	**.050**	**.471**

Dependent Variable: ROC.

Table 8.101 shows that the largest beta coefficient was .237 that was for Shareholders 1, which means that it makes the strongest unique contribution to explaining the ROA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Shareholders 3 followed by Shareholders 2 and finally Shareholders 4. All of the factors were not making a significant unique contribution to the prediction of the ROA except for Shareholders 1.

Table 8.101: Coefficient between Shareholders factors and Return on Asset (ROA)

	Standardised Coefficients Beta	Sig.
Shareholders 1	.237	.001
Shareholders 2	**.099**	**.165**
Shareholders 3	**-.164**	**.022**
Shareholders 4	**.080**	**.259**

Dependent Variable: ROA.

Table 8.102 shows that the largest beta coefficient was -.372 which refers to Shareholders 1, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Shareholders 2 followed by Shareholders 3 and finally Shareholders 4. All of the factors were not making a significant unique contribution to the prediction of the CFA except for Shareholders 1.

Table 8.102: Coefficient between Shareholders factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients	**Sig.**
	Beta	
Shareholders 1	-.372	.000
Shareholders 2	**-.145**	**.035**
Shareholders 3	**.115**	**.092**
Shareholders 4	**-.047**	**.489**

Dependent Variable: CFA.

Table 8.103 shows that the largest beta coefficient was -.433 which refers to Shareholders 1, which means that it makes the strongest unique contribution to explaining the Tobin’s Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Shareholders 3 followed by Shareholders 2 and finally Shareholders 4. All of the factors were making a significant unique contribution to the prediction of the Tobin’s Q except for Shareholders 4.

Table 8.103: Coefficient between Shareholders factors and Tobin's Q

	Standardised Coefficients Beta	Sig.
Shareholders 1	-.433	.000
Shareholders 2	.240	.000
Shareholders 3	-.418	.000
Shareholders 4	**-.017**	**.763**

Dependent Variable: Tobin's Q.

Table 8.104 shows that the largest beta coefficient was .298 which was for Accountability & Audit 1, which means that it makes the strongest unique contribution to explaining the ROC when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Accountability & Audit 4 followed by Accountability & Audit 3 and finally Accountability & Audit 2. Accountability & Audit 1 and 4 were making a significant unique contribution to the prediction of the ROC.

Table 8.104: Coefficient between Accountability & Audit factors and Return on Capital Employed (ROC)

	Standardised Coefficients Beta	Sig.
Accountability & Audit 1	.298	.000
Accountability & Audit 2	**-.024**	**.733**
Accountability & Audit 3	**.081**	**.246**
Accountability & Audit 4	.179	.012

Dependent Variable: ROC.

Table 8.105 shows that the largest beta coefficient was -.397 which was for Accountability & Audit 2, which means that it makes the strongest unique contribution to explaining the ROA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Accountability & Audit 4 followed by Accountability & Audit 1 and finally Accountability & Audit 3. All of the factors were making a significant unique contribution to the prediction of the ROA except for Accountability & Audit 3.

Table 8.105: Coefficient between Accountability & Audit factors and Return on Asset (ROA)

	Standardised Coefficients	Sig.
	Beta	
Accountability & Audit 1	.224	.001
Accountability & Audit 2	-.397	.000
Accountability & Audit 3	**.035**	**.582**
Accountability & Audit 4	.250	.000

Dependent Variable: ROA.

Table 8.106 shows that the largest beta coefficient was -.274 which refers to Acountability & Audit 3, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Accountability & Audit 4 followed by Accountability & Audit 2 and lastly Accountability & Audit 1. All of the factors were not making a significant unique contribution to the prediction of the CFA except for Accountability & Audit 3.

Table 8.106: Coefficient between Accountability & Audit factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients Beta	Sig.
Accountability & Audit 1	**-.014**	**.842**
Accountability & Audit 2	**-.054**	**.454**
Accountability & Audit 3	-.274	.000
Accountability & Audit 4	**-.134**	**.062**

Dependent Variable: CFA.

Table 8.107 shows that the largest beta coefficient was -.413 which refers to Accountability & Audit 2, which means that it makes the strongest unique contribution to explaining the Tobin's Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Accountability & Audit 1 followed by Accountability & Audit 4 and lastly Accountability & Audit 3. All of the factors were making a significant unique contribution to the prediction of the Tobin's Q except for Accountability & Audit 3.

Table 8.107: Coefficient between Accountability & Audit factors and Tobin's Q

	Standardised Coefficients Beta	Sig.
Accountability & Audit 1	-.360	.000
Accountability & Audit 2	-.413	.000
Accountability & Audit 3	**.093**	**.132**
Accountability & Audit 4	-.153	.014

Dependent Variable: Tobin's Q.

A table 8.108 show that the beta coefficient for Business Ethics & Responsibility 1 was .463, which means that it makes a strong unique contribution to explaining the

ROC. This factor was making a significant unique contribution to the prediction of the ROC.

Table 8.108: Coefficient between Business Ethics & Responsibility factors and Return on Capital Employed (ROC)

	Standardised Coefficients	Sig.
	Beta	
Business Ethics & Responsibility 1	.463	.000

Dependent Variable: ROC.

A table 8.109 show that the beta coefficient for Business Ethics & Responsibility 1 was .193, which means that it makes a strong unique contribution to explaining the ROA. This factor was making a significant unique contribution to the prediction of the ROA.

Table 8.109: Coefficient between Business Ethics & Responsibility factors and Return on Asset (ROA)

	Standardised Coefficients	Sig.
	Beta	
Business Ethics & Responsibility 1	.193	.009

Dependent Variable: ROA.

A table 8.110 show that the beta coefficient for Business Ethics & Responsibility 1 was -.269, which means that it makes a strong unique contribution to explaining the CFA. This factor was making a significant unique contribution to the prediction of the CFA.

Table 8.110: Coefficient between Business Ethics & Responsibility factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients	Sig.
	Beta	
Business Ethics & Responsibility 1	-.269	.000

Dependent Variable: CFA.

A table 8.111 show that the beta coefficient for Business Ethics & Responsibility 1 was -.442, which means that it makes a strong unique contribution to explaining the Tobin's Q. This factor was making a significant unique contribution to the prediction of the Tobin's Q.

Table 8.111: Coefficient between Business Ethics & Responsibility factors and Tobin's Q

	Standardised Coefficients	Sig.
	Beta	
Business Ethics & Responsibility 1	-.442	.000

Dependent Variable: Tobin's Q.

Table 8.112 shows that the largest beta coefficient was .540 which was for Intellectual Capital 2, which means that it makes the strongest unique contribution to explaining the ROC when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Intellectual Capital 1. Only Intellectual Capital 2 was making a significant unique contribution to the prediction of the ROC.

Table 8.112: Coefficient between Intellectual Capital factors and Return on Capital Employed (ROC)

	Standardised Coefficients	Sig.
	Beta	
Intellectual Capital 1	**-.012**	**.847**
Intellectual Capital 2	.540	.000

Dependent Variable: ROC.

Table 8.113 shows that the largest beta coefficient was .477 which was for Intellectual Capital 2, which means that it makes the strongest unique contribution to explaining the ROA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Intellectual Capital 1. Both Intellectual Capital 1 and 2 were making a significant unique contribution to the prediction of the ROA.

Table 8.113: Coefficient between Intellectual Capital factors and Return on Asset (ROA)

	Standardised Coefficients Beta	Sig.
Intellectual Capital 1	-.165	.011
Intellectual Capital 2	.477	.000

Dependent Variable: ROA.

Table 8.114 shows that the largest beta coefficient was -.127 which was for Intellectual Capital 2, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Intellectual Capital 1. Both Intellectual Capital 1 and 2 were not making a significant unique contribution to the prediction of the CFA.

Table 8.114: Coefficient between Intellectual Capital factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients Beta	Sig.
Intellectual Capital 1	**.015**	**.842**
Intellectual Capital 2	**-.127**	**.087**

Dependent Variable: CFA.

Table 8.115 shows that the largest beta coefficient was -.359 which was for Intellectual Capital 2, which means that it makes the strongest unique contribution to explaining the Tobin's Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Intellectual Capital 1. Both Intellectual Capital 1 and 2 were making a significant unique contribution to the prediction of the Tobin's Q.

Table 8.115: Coefficient between Intellectual Capital factors and Tobin's Q

	Standardised Coefficients	Sig.
	Beta	
Intellectual Capital 1	-.202	.003
Intellectual Capital 2	-.359	.000

Dependent Variable: Tobin's Q.

Table 8.116 shows that the largest beta coefficient was .478 which was for Disclosure 1, which means that it makes the strongest unique contribution to explaining the ROC when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Disclosure 4 followed by Disclosure 2 and Disclosure 3. All of the Disclosure factors were making a significant unique contribution to the prediction of the ROC.

Table 8.116: Coefficient between Disclosure factors and Return on Capital Employed (ROC)

	Standardised Coefficients	Sig.
	Beta	
Disclosure 1	.478	.000
Disclosure 2	.219	.000
Disclosure 3	.206	.000
Disclosure 4	-.330	.000

Dependent Variable: ROC.

Table 8.117 shows that the largest beta coefficient was .374 which refers to Disclosure 3, which means that it makes the strongest unique contribution to explaining the ROA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Disclosure 4 followed by Disclosure 2 and lastly Disclosure 1. All of the Disclosure factors were making a significant unique contribution to the prediction of the ROA except for Disclosure 1.

Table 8.117: Coefficient between Disclosure factors and Return on Asset (ROA)

	Standardised Coefficients	Sig.
	Beta	
Disclosure 1	**.010**	**.875**
Disclosure 2	.240	.000
Disclosure 3	.374	.000
Disclosure 4	-.251	.000

Dependent Variable: ROA.

Table 8.118 shows that the largest beta coefficient was -.339 which refers to Disclosure 1, which means that it makes the strongest unique contribution to explaining the CFA when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Disclosure 4 followed by Disclosure 2 and lastly Disclosure 3. Only Disclosure 1 and Disclosure 4 were making a significant unique contribution to the prediction of the CFA.

Table 8.118: Coefficient between Disclosure factors and Return on Operating Cash Flow (CFA)

	Standardised Coefficients	Sig.
	Beta	
Disclosure 1	-.339	.000
Disclosure 2	**.131**	**.056**

Disclosure 3	**-.074**	**.282**
Disclosure 4	-.176	.011

Dependent Variable: CFA.

Table 8.119 shows that the largest beta coefficient was -.492 which refers to Disclosure 1, which means that it makes the strongest unique contribution to explaining the Tobin's Q when the variance explained by all other factors in the model was controlled for. The second highest beta value was for Disclosure 2 followed by Disclosure 4 and lastly Disclosure 3. Only Disclosure 1 was making a significant unique contribution to the prediction of the Tobin's Q.

Table 8.119: Coefficient between Disclosure factors and Tobin's Q

	Standardised Coefficients Beta	Sig.
Disclosure 1	-.492	.000
Disclosure 2	**-.135**	**.037**
Disclosure 3	**-.057**	**.374**
Disclosure 4	**-.083**	**.195**

Dependent Variable: Tobin's Q.

The coefficient table identified which governance factors included in the model contributed to the prediction of the company performance. It also evaluates each of the governance factor unique contribution to the prediction of the company performance.

8.5 General Discussion

The aim of the final stage of the investigation was to investigate company corporate integrity and performance. In order to assess company integrity, corporate governance reporting was benchmark against the board and top management perception about their company corporate governance practices. Corporate governance reporting uses the seven corporate governance indicators as the reporting checklist to assess company reporting practices. The same checklist was used in the survey questionnaire to assess board and top management perception about company corporate governance practices. The benchmarking exercise measure corporate integrity by having consistency between corporate governance reporting practices and perception on corporate governance practices. Variances calculated indicate the discrepancy between corporate governance reporting and corporate governance survey score. High variance computation means low integrity value.

Then the investigation on the relationship between corporate integrity and performance were conducted. A standard or simultaneous multiple regressions were used in this research to address the last research question which explores the relationship between company performance and corporate integrity. The factors scores were regress against the company performance. The performance was proxies by Return on Capital Employed (ROC), Return on Asset (ROA), Return on Operating Cash Flow (CFA) and Tobin's Q.

8.6 Summary

Overall the final stage of the investigation assesses company corporate integrity by validating corporate governance reporting with board and top management perceptions about their company corporate governance practices. Then the relationship between company corporate integrity and performance were investigated. The investigations answer how corporate governance indicators can be used to measure corporate integrity and the relationship between corporate integrity and corporate performance.

The next chapter present discussion of the findings.

CHAPTER 9: DISCUSSION

9.1 Chapter Description

The purpose of this research was to develop a corporate integrity assessment instrument using corporate governance indicators in Malaysians government link companies. Before presenting the conclusions drawn from this research, this chapter addresses the consequences that result from the study of each of the five research questions and two propositions and hypotheses posed in chapter 4.

9.2 Research Question 1- *What are the current corporate governance practices among Malaysian government link companies (GLCs) and the understanding of corporate integrity concept?*

Evidence from the interviews conducted in the first stage of the investigation addressed the first research question.

9.2.1 What is the state of corporate governance practices in Malaysian GLCs?

The study revealed the current corporate governance practices among Malaysian government link companies is in place. The results map corporate governance practices in Malaysia which addresses the first research question. Deeper and broader understanding of the practice of corporate governance was engage. This led to the following important observations made from themes contained within interview responses.

9.2.1.1 Can corporate governance reporting provide a reliable indicator of integrity?

Views on the issue of reliability were mixed. The effectiveness and the reliability of corporate governance reporting among Malaysian companies was an issue identified from the interview responses. All of the interviewees agreed that a higher standard of corporate governance practices were observed in their companies than what were reported in the annual reports. Among the poorly reported information was; directors' benefits, directors quality, integrity and accountability issues, risk management, internal control & audit, shareholder matters and assessment & action taken after assessment made. All of the interviewees' agreed that greater disclosure can perhaps address many of the corporate governance reporting issues but again they were concerned about the accuracy of the reporting, which varies from very accurate, accurate and need revision and improvement. More than half of the interviewee disagreed with the statement and the balance of the responses have a mixed perception regarding corporate governance reporting may perhaps be reliable indicator to integrity. Corporate reports, filings and stakeholder communications may say one thing, when in reality the company was doing something else (Rasmussen 2011).

The literature review in chapter two found that researchers also held conflicting views about the potential reliability of integrity indicators. Fasterling (2006) in his comments on corporate governance reporting came to the conclusion that reports of corporate governance indicators were unreliable. He stressed that disclosure alone cannot solve corporate governance problems and further suggested that academic research should address the importance of honesty and accurate reporting as a fundamental value for the effectiveness of disclosure. Kraakman (2004) then argued that inaccurate disclosures were difficult to detect and where disclosures were accurate, they still may have hidden implications that were difficult to uncover. As the present corporate governance practices has created an era of corporate conformance of ticking boxes, running through drills and complying with codes (Le Pla 2005), the practice of ticking off boxes for compliance only led to a false sense of security that the right judgements were being made and the right actions were being taken. In other words, the present system of reporting was flawed.

9.2.1.2 Understanding of corporate integrity concept

The interviewees defined integrity as having good human values and good system values. Good system values act as a mirror to reveal the truth about a corporation (Rasmussen 2011). There was evidence that interviewees understand the concept and importance of corporate integrity. It appeared that these interviewees viewed corporate integrity as part of corporate governance. Corporate integrity was seen by some of these interviewees as the result of good corporate governance practice in the company.

Factors that contribute to the issues and challenges in maintaining integrity can be divided into two: internal factors and external factors. Internal factors referred to company values, board leadership, company resources, company structure and system. External factors that influence company integrity were business politics, business environment, industry pressure, government rules and regulation and authority pressure. Suggestions on how to instil integrity were also being suggested by the interviewees. Among the suggestions were providing training that will enhance human capital and promote positive culture, having adequate system that ensure stable corporations and functioning rule of law, promoting effective regulators roles, enhancing the role of shareholder activists, distributing effective public announcements and having effective key performance indicators.

9.2.1.3 The importance of boards of directors

Interview responses highlighted the importance of the boards of directors in all the above activities. The boards of directors significantly influenced company corporate governance practice. Company boards of directors were bodies entrusted with power to make economic decisions affecting the well-being of investors' capital, employees' security, communities' economic health, and executive power and perquisites (Banks 2004). When the Malaysian Securities Commission (SC) revised the Malaysian Code on Corporate Governance and issued the revised Code (Finance Committee on Corporate Governance 2007; Securities Commission 2007c), the key amendments to the Code aimed at strengthening the board of directors and audit committees, and ensuring that the board of directors and audit committees discharge their roles and responsibilities effectively.

Half (50% in both groups) of the interviewees raised the importance of the quality and competencies of directors since it influenced corporate culture. The expectations of the Cadbury report on the effectiveness of board discharging their responsibilities were confirmed by this study.

The literature review in chapter 2 (Renton 1994; Jensen 1998; Salleh and Ahmad 2008) found that some researchers concluded that much of the failure of integrity in corporations was due to human greed coupled with lack of external accountability. It was simply assumed that boards who are responsible should act ethically. The results in chapter 8 show that this is in direct conflict with the findings on corporate governance reporting and board and top management perceptions and opinions of their companies' corporate governance practices. This discrepancy means that most organizations "do not walk the talk" (Rasmussen 2011) when it comes to corporate integrity. The external validation of governance practices was not only desirable but essential.

9.2.1.4 Can corporate governance reporting validation provide assessment of integrity?

Observation made from questions associated with the issues of corporate governance reporting, appeared to provide strong support for validating corporate governance reporting. This was an interesting result as all interviewees from the expert group and most of the practitioners tended to agree that validation of corporate governance reporting perhaps disclosed good corporate governance practices and integrity value. As the auditing model which agency theory provides only centres on the verification of financial reports by the auditor to confirm the reliability of financial information, other information that the board of directors and management (agent) of the firm provides to the shareholders / owners in the annual report is not verified. This supports Fasterling's (2006) argument that if honest reporting is not reliable, disclosure rules rapidly become inefficient, and must instead depend solely on enforcement and verification measures.

Thus most of the codes of corporate governance recognise the importance of adequate disclosure and timely reporting as key elements of corporate governance. Where a code recommended that the board of directors should deliver sufficient and reliable information to shareholders it is known as ‘disclosure adequacy’. This is also emphasized by the OECD principles of corporate governance:

> *“The corporate governance framework should ensure that timely and accurate information is disclosed on all material matters regarding the financial situation, performance, ownership and governance of the company.” (OECD 1999)*

Summary

Based on the above findings and arguments, the results of this study indicated that the present rule-based governance system doesn’t promote effective and reliable corporate governance reporting measurement. The research also highlighted the importance of boards of directors in significantly influencing company corporate governance practice. It is fair to assess corporate governance practice from the boards of directors’ perspective since directors have the ultimate internal authority within a company. The need to validate corporate governance reporting, since the present auditing model only verifies financial reports but not on other information disclosed in the annual reports. The results show that directors have a good understanding of corporate integrity concept demonstrated in good human and system values and that these resulted from good corporate governance practices.

Findings from the first stage of the study’s data collection also provided direction to the study on how to measure and model integrity using corporate governance indicators. Since companies are ultimately controlled and run by their boards, asking them about the company corporate governance practices provides an insight into a perspective which is a step further than the current method of assessing and measuring corporate governance practices. Validating corporate governance reporting, by benchmarking it against the boards of directors and top management perceptions and opinions about their companies' corporate governance, measures company integrity value. The study confirmed the definition of the integrity concept, which was defined in the literature review as the consistency between corporate governance reporting practices and board of directors and top management perceptions and opinions (Kimber and Lucas 2001; Rasmussen 2011)

The results of the second stage of the investigation obtained from the survey questionnaire addressed the second and third research questions.

9.3 Research Question 2 - *What corporate governance indicators could be used to model and assess corporate integrity?*

The results of this study identified seven corporate governance factors, Director 1 to Director 7 that confirmed the model and measures of corporate integrity based on governance indicators. They related to directors' skills, roles and responsibilities, directors' remuneration, relationships with shareholders, accountability and communication, business ethics, intellectual capital and disclosure.

9.3.1 Directors

Nine Director Factors were perceived to be able to model and measure corporate integrity. The nine factors were labelled Director 1 to Director 9.

Director 1 which referred to ‘Board roles and responsibilities’ addresses the board’s roles, responsibility, authority, competencies, training and participation in decision making process. Director 2 addresses the procedures for board election/ re-election, appointment and re-appointment, Nomination committee consideration for board criteria and board capacity to access to professional advisors. Director 2 referred to ‘Board selection and appointment’. The third factor, Director 3 incorporate board competencies in industry knowledge and customer based experience, timely information received from the company, regular meeting with due notice and detailed agenda for board meeting. Director 3 referred to ‘Board meeting and information’.

The fourth factor, Director 4 related to the role of remuneration and nomination committee, board has minority shareholder representative and the independent of Chairman and CEO. Director 4 referred to ‘Board committee function, minority shareholder representative and chairman and CEO independency’. The fifth factor, Director 5 relates to company vision, mission and strategic goal. Director 5 referred to ‘Company vision’. Director 6 which referred to ‘Board operational procedure’ explained about board schedules for making decisions, board reviews of the company strategic goals and company procedures for succession planning for management team.

The seventh factor, Director 7 related to board access to company secretary and board approval on company Key Performance indicators (KPI). This factor dealt with 'Professional advice and performance indicator'. Director 8 which referred to 'Board succession plan, education and evaluation' relates to board succession plan, board evaluation and orientation and education programme provided to board. The last factor, Director 9 talks about board independency and competencies in accounting and finance. Director 9 refers to 'Board effectiveness and competencies'.

The above factors measure director's integrity. They were determined by board of directors and top management perceptions of the corporate governance indicators which aim to improve the quality of board, strengthening the board and ensuring the board discharge their roles and responsibilities effectively. All nine factors identified accounted for 78.7% of the total variance explained for directors.

9.3.2 Directors' Remuneration

Three Directors' Remuneration factors were perceived to be able to model and measure corporate integrity. The factors were labelled Directors' Remuneration 1 to Directors' Remuneration 3.

The first factor, Directors' Remuneration 1 addresses the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages. It also related to how company consider pay and employment conditions within the industry. This will ensure directors were being offer attractive remuneration package that can retain them in the company. Directors' Remuneration 1 referred to 'Attractive and transparent remuneration procedure'.

The second factor, Directors' Remuneration 2 consists of two variables which address the formal procedure for developing and fixing the remuneration packages and the executive director's remuneration was based on individual performance. Directors' Remuneration 2 referred to 'Performance driven and formal remuneration procedure'. The last factor, Directors' Remuneration 3 incorporate company ways in developing and fixing the remuneration packages for the non-executive director's by referring to experience, contribution and responsibilities. The company also uses long term incentives for rewarding their executive directors. Directors' Remuneration 3 looks into 'Remuneration reward criteria'.

The above factors serve as ways to measure board of director agreement on the procedures, level and make-up of remuneration in the company. They were determined by board of directors and top management perceptions of the corporate governance indicators which relates to company process and procedures in rewarding their board of directors. All three factors identified accounted for 77.1% of the total variance explained for directors' remuneration.

9.3.3 Shareholders

Four Shareholders factors were identified and the reliability analysis confirmed the reliability of the four underlying factors. The factors were labelled Shareholders 1 to Shareholders 4.

The first factor, Shareholders 1 comprises four variables which look at aspects of company communication to the shareholder regarding dividend policy. It also addresses procedures to access company information and shareholders' approval for related party transaction. Shareholders 1 referred to 'Dividend policy information and related party transaction approval'. The second factor, Shareholders 2 referred to the procedures and conduct of AGM. It also addresses company communication with shareholders through annual reports. Shareholders 2 referred to 'AGM matter and annual report'.

The third factor, Shareholders 3 referred to 'EGM matter and announcement' addresses the voting procedures at Extraordinary General Meeting (EGM), communicate with the shareholders regarding their proxies, rights and privileges. This factor also includes the use of announcements in maintaining regular and effective communication with shareholders. The last factor, shareholders 4 consists of two variables. It incorporates information about Annual General Meeting (AGM) function. It indicates how company used the AGM as a platform to communicate with their private investor. The private investor was also encouraged to participate during the meeting. Shareholders 4 can be referring to 'AGM function'.

The above factors look at aspects of communication that exists between companies and investors. They were determined by board of directors and top management perceptions of the corporate governance indicators which reflects the company relationship with their investors. All four factors accounted for 63.7% of the total variance explained.

9.3.4 Accountability & Audit

Four Accountability & Audit factors were perceived to be able to model and assess corporate integrity as a result from the factor analysis. The factors were labelled Accountability & Audit 1 to Accountability & Audit 4.

The first factor, Accountability & Audit 1 addresses issues about board understanding of their responsibilities to safeguard shareholders' investment, company assets and maintaining a sound internal control system. They were also responsible to make an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. In order for the board to perform their duty effectively, they received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company. Accountability & Audit 1 referred to 'Internal control and information received'.

The second factor, Accountability & Audit 2 referred to 'Report release and auditing'. This factor explained about the release of the audited report to public within 120 days or 4 months of the balance day adjustment. It also highlights company transparent relationship with the external auditor and the audit committee are financially literate. The third factor, Accountability & Audit 3 contains four variables, which refers to company having a clear written term of reference for the audit committee. It also mentions about the composition of audit committee, which are fully non executives' directors and the head of internal audit reports directly to the audit committee. Annually audit committee will assess the adequacy of the internal audit process. This factor referred to 'Audit committee matter'.

The fourth factor, Accountability & Audit 4 incorporates information about the continuous engagement between the audit committee chairman and external auditors. It also includes information about the frequent meetings between audit committee and the external auditor without executive board members present. Lastly, qualitative information about company performance is provided to board on time. Accountability & Audit 4 referred to ‘Board, audit committee and external auditor’.

The above factors referred to board responsibility and accountability towards the company shareholder. It also includes information about the financial reporting, quality information received on time by board, company internal control and relationship with auditors. All four factors identified accounted for 77.2% of the total variance explained.

9.3.5 Business Ethics & Responsibility

Only one Business Ethics & Responsibility factor was perceived to be able to model and assess corporate integrity. The factor was labelled Business Ethics & Responsibility 1.

Business Ethics & Responsibility 1 relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the board must ensure that the company has a policy implicating such responsibilities. This factor referred to ‘Code of ethics and whistle blower policy’.

The above factor looks at the responsibility of the board in ensuring the company management and employees have the highest level of ethical values and responsibilities. The board were also responsible to ensure the company has a policy implicating such responsibilities. Business Ethics & Responsibility 1 accounted for 58.6% of the total variance explained.

9.3.6 Intellectual Capital

Two Intellectual Capital factors selected to model and assess corporate integrity which had high reliability results. The factors were labelled Intellectual Capital 1 and Intellectual Capital 2.

The first factor, Intellectual Capital 1 comprises five variables addressing issues about how board recognizes intellectual capital as an important asset to the company. This factor look at how company established procedure in identifying the present and potential financial value of intellectual capital; established procedures identifying any possible threats to present intellectual capital efficiency; established procedures for identifying renewing and developing intellectual capital; approves activities which promote knowledge workers and staff promotional policy is formal and transparent. Intellectual Capital 1 referred to ‘Intellectual capital recognition’.

The second factor, Intellectual Capital 2 which referred to ‘Board appreciation and implementation of intellectual capital’ comprises four variables. It recognizes the importance of intellectual capital by including it in the company strategic planning agenda; approves the allocation of a large amount of expenditure to the employees or staff training and development; approves the company investment in IT related assets and company has a detail and formal staff health or safety measures.

The above factors serve as ways in recognizing intellectual capital as one of the most important assets in the company. The factors accounted for 77.7% of the total variance explained.

9.3.7 Disclosure of information

Four Disclosure factors were perceived to be able to model and assess corporate integrity after factor analyses were conducted. The factors were labelled Disclosure 1 to Disclosure 4.

The first factor, Disclosure 1 addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship. Disclosure 1 referred to ‘Auditing, audited report and board responsibility’.

The second factor, Disclosure 2 comprises four variables which relates to the disclosure on internal control, AGM notice and lead control. The third factor, Disclosure 3 contains three variables which talk about disclosure on board profile, third party transaction and remuneration committee. The fourth factor, Disclosure 4 consists of two variables. It incorporates information about the remuneration, other benefit and additional contribution received by board. Disclosure 4 can be referring to 'Board remuneration and benefit received'.

The above factors accounted for 75.7% of the total variance explained. The board of directors and top management perceptions regarding the importance of disclosure were gauged. It aimed to ensure transparent reporting and disclosure was in place.

9.4 Research Question 3 - *How important was each of the corporate governance factors identified earlier in modelling and assessing corporate integrity?*

The results determine the importance of each indicator identified in modelling and measuring corporate integrity. It was based from the board of directors and top management perceptions and opinions.

9.4.1 Directors

Based on the analyses, Director 1 is the most significant factor in assessing director's integrity. This factor accounted for 38.3% of the total variance explained by all factors. It addresses the board roles, responsibility, authority, competencies, training and participation in decision making process. The boards of directors and top management perceived this factor as important. Furthermore, the results suggest that it is being practice in the Malaysian companies.

9.4.2 Directors' Remuneration

The factor analyses identify Directors' Remuneration 1 as the most significant factor in assessing board of director agreement on the procedures, level and make-up of remuneration in the company. This factor addresses the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages. It also relates to how company consider pay and employment conditions within the industry. This will ensure directors are being offer attractive remuneration package that can retain them in the company. It accounted for 44.3% of the total variance explained by all factors. For this factor, the board of director and top management perception shows that company practice and adopt it.

9.4.3 Shareholders

Based on the analyses result, it can be surmised that the factor Shareholders 1 is the most significant component in looking at communication aspects that exists between company and investors. This factor accounted for 33.7% of the total variance explained by all factors. It addresses on how company communicate their dividend policy to the shareholder and company acquiring shareholder approval for related party transaction. The board of director and top management perceive this factor as important and it is being practice in the company.

9.4.4 Accountability & Audit

Factor Accountability & Audit 1 is the most significant component in addressing issues about board responsibility and accountability to safeguard shareholders' investment, company assets and maintain a sound internal control system. This factor addresses the board responsible in making an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually. The factor further addresses the important of board to received timely and quality information on the financial performance, third party related transactions and prospects and opportunities of the company. This factor accounted for 46.6% of the total variance explained by all factors. The board of director and top management perceive this factor as important and it is being practice in the company.

9.4.5 Business Ethics & Responsibility

Based on the results, it can be summarized that this factor, Business Ethics & Responsibility 1 is significant component in addressing issues about board responsibility in ensuring company management and employees uphold the highest level of ethical values and responsibilities. This is by ensuring company has a policy implicating such responsibilities. This factor accounted for 58.6% of the total variance explained by other factor, validating its strength. The board of director and top management agreed with the important of this factor and perceive it is being practice in the company.

9.4.6 Intellectual Capital

Based on the results, it can be summarized that the factor Intellectual Capital 1 is the most significant component in addressing issues referring to board appreciation and reorganization of intellectual capital and is one of the most important assets in a company. This is achieved by ensuring that a company has established procedures in place to identify the present and potential financial value of intellectual capital; established procedures identifying any possible threats to present intellectual capital efficiency; established procedures for identifying renewing and developing intellectual capital; approves activities which promote knowledge workers and staff promotional policy is formal and transparent. This factor accounted for 62.9% of the total variance explained by all factors. There is still room for improvement for company to recognize intellectual capital as one of the most important assets in the company.

9.4.7 Summary

Based on the analyses results, it can be summarized that the factor Disclosure 1 is the most significant component in addressing issues about disclosure. This factor addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship. From this study, it is concluded that the company Board of Directors (BOD) should be responsible and transparent towards the firm shareholders. This factor accounted for 44.6% of the total variance explained by all factors. The boards of directors and top management acknowledge their responsibility to be transparent towards a firm's shareholders.

Overall the second stage of the investigation identified corporate governance indicators which modelled and assessed corporate integrity and its reliability. It also identified which factors were most important in modelling and assessing corporate integrity.

9.5 Research Question 4 - *What was the level of integrity in the Malaysian government link companies (GLCs)?*

The third and final stage of the investigation addressed the fourth and fifth research questions. The aim of the investigation was to measure corporate integrity and to see whether there was any relationship between company integrity values and performance.

In order to assess company integrity, corporate governance reporting practices were benchmarked against the board and top management perceptions and opinions about their company corporate governance practices. Corporate governance reporting uses the seven corporate governance indicators as the reporting checklist to assess company reporting practices. The same checklist was used in the survey questionnaire to assess board and top management perceptions about company corporate governance practices. The validation of corporate governance reporting practices with the corporate governance survey perceptions were to confirm the accuracy and reliability of the information disclosed in the annual report.

The study assessed the integrity value of a company by determining the consistency between corporate governance reporting practices and corporate governance perceptions. The differences in the average variances calculated indicated the discrepancy between corporate governance reporting practices and corporate governance perceptions scores. The lower the average variance calculated indicated, the higher the consistency of reporting practices (corporate governance reporting practice) and perceptions (board & top management perceptions and opinions).

9.5.1 Directors - Integrity value measurement

The following were the factors with their integrity measure starting from the lowest to the highest average variance calculated.

- **Director 9** – Effectiveness & competencies (0.9% average variance)
- **Director 1** – Roles & responsibilities (1.13% average variance)
- **Director 2** – Selection & appointment (3.1% average variance)
- **Director 7** – Professional advice & performance indicator (3.9% average variance)
- **Director 4** – Committee function, minority shareholder & independency (19.83% average variance)
- **Director 3** – Meeting & information (21.6% average variance)
- **Director 8** – Succession plan, education & evaluation (26.53% average variance)
- **Director 6** – Operational procedure (33.8% average variance)
- **Director 5** – Vision (42.4% average variance)

Director 9 which referred to board independence and competencies in accounting and finance shows the highest consistency between corporate governance practices and corporate governance perceptions. This indicates that Director 9 scored the highest integrity value. Board competencies in accounting and finance were spelt out in the revised Malaysian Code on Corporate Governance (Finance Committee on Corporate Governance 2007) under best practices (Accountability and Audit). Having board members that are able to read, analyse and interpret financial statements will help them in discharging their functions effectively.

The result confirms that the code of best practices do promote integrity. Director 1 was ranked second after Director 9 even though it was identified as the most important factor in the analyses of Director Factors. The factor that was perceived to be important to measure integrity does not necessarily have the highest integrity value. The lowest integrity value was scored by Director 5 which relates to company vision, mission and strategic goal. The inconsistency calculated for this factor was significantly high. Companies need to transparently disclose information regarding this matter in order to ensure there is an alignment between reporting and perception.

9.5.2 Directors' Remuneration- Integrity value measurement

The following were the factors with its integrity measurement starting from the lowest average variance calculated.

- **Directors' remuneration 2 –** Performance driven & formal procedure (8.0% average variance)
- **Directors' remuneration 3 –** Reward criteria (15.9% average variance)
- **Directors' remuneration 1 –** Attractive & transparent procedure (18.73% average variance)

Directors' remuneration 2 shows the highest integrity value. The factor indicates the highest consistency between corporate governance reporting practices and corporate governance perception. The Malaysian Code on Corporate Governance (Finance Committee on Corporate Governance 2007) under principles of corporate governance (Directors' remuneration), state that the component parts of remuneration should be structured so as to link rewards to corporate and individual performance, in the case of executive directors. The result indicate that the basic principle in the Malaysian Code on Corporate Governance for directors' remuneration do promote integrity.

The factor which scored the lowest integrity value is Directors' Remuneration 1 even though it was named the most important factor for Directors' remuneration. The inconsistency regarding this factor was due to insufficient information being disclosed in the annual report on the level of remuneration to attract and retain directors needed to run the company successfully.

9.5.3 Shareholders - Integrity value measurement

The following were Shareholders factors with its integrity values starting from the lowest average variance calculated.

- **Shareholder 2 –** AGM & annual report (1.6 average variance)
- **Shareholder 4 –** AGM function (2.2% average variance)
- **Shareholder 3 –** AGM & announcement (33.93% average variance)
- **Shareholder 1** – Dividend policy & related party transaction (37% average variance)

Shareholder 2 was rank first in term of having high integrity value. It referred to the procedures and conduct of AGM as well as communication with shareholders through annual reports. The factor shows consistency in reporting on voting procedure at AGM and proxies rights at AGM with board and top management perceptions. It also indicates that a company holds its AGM at least every fifteen months and uses annual reports to maintain regular and effective communication with their shareholders. The

Malaysian Code on Corporate Governance (Finance Committee on Corporate Governance 2007) under basic principles (Shareholder) stressed the importance of dialogue between companies and investors and the uses of the AGM to communicate with private investors and encourage their participation. The result indicates that the code does promote integrity and Malaysian company practices are to disclose the information in the annual report.

Shareholder 1 which ranked last in terms of integrity value looks at aspects of company communication to the shareholder regarding dividend policy. It also addresses procedures to access company information and shareholders' approval for related party transaction. The variance between reporting and survey score indicate that the transparency of the company dividend policy needs improvement and information pertaining to this, needs to be well communicated to the shareholder in the annual report.

9.5.4 Accountability & Audit - Integrity value measurement

Bases on the validation exercise, the following were the factors with its integrity value starting from the lowest average variance calculated.

- **Accountability & Audit 2 –** Report release & auditing (2.57% average variance)
- **Accountability & Audit 3 –** Audit committee (3.7% average variance)
- **Accountability & Audit 1 –** Internal control & information (6.11% average variance)
- **Accountability & Audit 4 –** Board, audit committee & external auditor **(**12.2% average variance)

Accountability & Audit 2 was rank first in term of having high integrity value. This factor addresses issues on transparent relationship with external auditor and the need for the audit committee members to be financially literate. This factor also refers to the release of the audited report to public within 120 days or 4 months of the balance day adjustment. The need for the board to establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors were spell out in the Malaysian Code on Corporate Governance (Finance Committee on Corporate Governance 2007) under the basic principle (Accountability and Audit) and for the audit committee to be financially literate were mention in the best practices. Again the basic principle and best practice of the code promote integrity.

The factor with the lowest integrity value was Accountability & Audit 4. The high variance calculated was due to not enough information disclosed regarding the frequent meetings between audit committee and the external auditor without executive board members present. This indicates Malaysian company need to improve their disclosure practices regarding this matter to show their board responsibility and accountability towards the firm shareholder.

9.5.5 Business Ethics & Responsibility - Integrity value measurement

Only one factor was identified and base from the validation exercise, Business Ethics & Responsibility 1 has 31.87% average variance calculated.

- **Business Ethics & Responsibility 1 –** Code of ethics & Whistle blower policy (31.87% average variance)

Business Ethics & Responsibility 1 relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the board must ensure that the company has a policy implicating such responsibilities. The high average variance calculated was due to the inconsistency between corporate governance reporting practice and perception concerning the monitoring of the code of ethics implementation. Information related to the establishment of the code on ethics and company having a formal and transparent procedure for staff disciplinary matters were also contributing to the average variance calculated. Ironically, the issue of "Business Ethics" has not been explicitly addressed by the Malaysian Code on Corporate Governance. Instead it is implicitly required through other Best Practices requirements such as "disclosure of activities" and "description limits to management responsibilities". The issue is however widely covered by other corporate governance studies elsewhere (for example Oxfam, 2002; IFAC, 2003). The Malaysian code on Corporate Governance only spelt out explicitly about "Responsibility of the Board" through both its Basic Principles and Best Practices guidelines.

9.5.6 Intellectual Capital - Integrity value measurement

The following were the factors with its integrity value measurement starting from the lowest average variance calculated.

- **Intellectual Capital 2 –** Appreciation & implementation (26.05% average variance)
- **Intellectual Capital 1 –** Recognition (26.52% average variance)

There was not much different between Intellectual capital 1 and 2 on average variance calculated. As Intellectual Capital 2 which was ranked first in having integrity value for Intellectual capital factor, it refers to how board recognize the importance of intellectual capital by including it in the company strategic planning agenda; approves the allocation of a large amount of expenditure to the employees or staff training and development; approves the company investment in IT related assets and company has a detail and formal staff health or safety measures.

Intellectual Capital 1 which was ranked second in integrity value addresses issues about how board recognizes intellectual capital as an important asset to the company. This is by ensuring company established procedure in identifying the present and potential financial value of intellectual capital; established procedures in identifying any possible threats to present intellectual capital efficiency; established procedures for identifying renewing and developing intellectual capital; approves activities which promote knowledge workers and staff promotional policy is formal and transparent. There is only marginal difference between these two factors in term of integrity value measured. The result indicate that Malaysian company needs to improve their reporting regarding this matter even though it is not part of the code requirement. The need for board to recognize intellectual capital as an important asset to the organization was crucial in ensuring company continuity and sustainability in the industry. There is still room for improvement.

9.5.7 Disclosure - Integrity value measurement

The following were the factors that can measure integrity value starting from the lowest average variance calculated.

- **Disclosure 1 –** Auditing, audited report & board responsibility (5.84% average variance)
- **Disclosure 2 –** Internal control, AGM notice & lead control (6.23% average variance)
- **Disclosure 3 –** Board profile, third party transaction & remuneration committee (10.03% average variance)
- **Disclosure 4 –** Board remuneration & benefit (45.3% average variance)

Disclosure 1 has been identified as the most important factor in modelling and assessing corporate integrity. This factor has also being rank first in having integrity value. It addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship. Disclosure 4 has been ranked last and it incorporates information about the remuneration, other benefit and additional contribution received by board.

This was referring to paragraph 15.26 of the *Listing Requirements of Bursa Malaysia* which requires all listed companies to state in their annual reports how they have applied the *basic principles*, the extent to which they have complied with the *best* *practices*, identify and give reasons for areas of non-compliance and where applicable, state the alternative practice(s) adopted. In a situation if a company fails to disclose the matters in its annual report, Bursa Malaysia can take action against the company or its directors as set out in the *Listing Requirements of Bursa Malaysia.*

9.6 Research Question 5 - *What was the relationship between corporate integrity and corporate performance?*

Next the investigation was to see the relationship between company integrity values with performance. A standard or simultaneous multiple regressions were used in this research to address the last research question which explores the relationship. The factors scores were regressed against the company performance. The performance was proxies by Return on Capital Employed (ROC), Return on Asset (ROA), Return on Operating Cash Flow (CFA) and Tobin's Q. The results identified factor that has relationship with company performance.

The factors were than analysed to see the relationship between company integrity value and performance. Firstly, model evaluations were conducted. The percentage calculated explains the strength of the relationship between the factors and company performance. The statistical significance of the factors was also tested. Secondly, individual governance factors were evaluated to see how it influences company performance. Beta value calculated evaluate each of the governance factors which make the strongest unique contribution in explaining company performance. The larger the beta value, the stronger the governance factor in explaining the company performance. The statistical significant of each of the factors were also conducted.

9.6.1 Directors - Corporate integrity and performance

The following result reports on the strength of the relationship between the factors and company performance. Directors factors explains 55.2% of the variance in perceived of Return on Capital Employed (ROC), Directors factors explains 44.7% of the variance in perceived of Return on Asset (ROA), Directors factors explains 18.3% of the variance in perceived of Return on Operating Cash Flow (CFA) and Directors factors explains 52.6% of the variance in perceived of Tobin's Q. From the above results, Directors factors have strong relationship with Return on Capital Employed (ROC) and Tobin's Q.

Next were the results on the strength of individual governance factors in explaining company performance. It is being rank according to the beta value.

Ranking of 9 Directors factors in predicting ROC

- **Director 2** – Selection & appointment (.404 beta value)
- **Director 8** – Succession plan, education & evaluation (-.343 beta value)
- **Director 9** – Effectiveness & competencies (-.307 beta value)
- **Director 4** – Committee function, minority shareholder & independency (.250 beta value)
- **Director 1** – Roles & responsibilities (.242 beta value)
- **Director 5** – Vision (.188 beta value)
- **Director 3** – Meeting & information (.131 beta value)
- **Director 7** – Professional advice & performance indicator (not significant)
- **Director 6** – Operational procedure (not significant)

Director 2 was identified to be the strongest factor in explaining ROC. Even though Director 9 had the highest integrity value, its strength ranked only third in explaining ROC. Director 1 which was being identified as the most important factor in assessing and modelling integrity just being rank fifth in explaining ROC.

Ranking of 9 Directors factors in predicting ROA

- **Director 8** – Succession plan, education & evaluation (-.338 beta value)
- **Director 2** – Selection & appointment (.331 beta value)
- **Director 3** – Meeting & information (.295 beta value)
- **Director 9** – Effectiveness & competencies (-.286 beta value)
- **Director 6** – Operational procedure (-.183 beta value)
- **Director 7** – Professional advice & performance indicator (not significant)
- **Director 5** – Vision (not significant)
- **Director 1** – Roles & responsibilities (not significant)
- **Director 4** – Committee function, minority shareholder & independency (not significant)

Director 9 was just being ranked fourth in its ability to explain ROA even though it has the highest integrity value. Director 5 was not significant in explaining ROA, same as Director 7, 1 and 4.

Ranking of 9 Directors factors in predicting CFA

- **Director 2** – Selection & appointment (-.288 beta value)
- **Director 1** – Roles & responsibilities (.173 beta value)
- **Director 5** – Vision (not significant)
- **Director 3** – Meeting & information (not significant)
- **Director 7** – Professional advice & performance indicator (not significant)

- **Director 9** – Effectiveness & competencies (not significant)
- **Director 4** – Committee function, minority shareholder & independency (not significant)
- **Director 8** – Succession plan, education & evaluation (not significant)
- **Director 6** – Operational procedure (not significant)

Director 9 was not significant in explaining CFA even though it has the highest integrity value. Director 2 and 1 have statistical significant in explaining company CFA.

Ranking of 9 Directors factors in predicting Tobin's Q

- **Director 5** – Vision (-.422 beta value)
- **Director 1** – Roles & responsibilities (-.363 beta value)
- **Director 7** – Professional advice & performance indicator (.333 beta value)
- **Director 6** – Operational procedure (-.229 beta value)
- **Director 9** – Effectiveness & competencies (.147 beta value)
- **Director 4** – Committee function, minority shareholder & independency (not significant)
- **Director 2** – Selection & appointment (not significant)
- **Director 8** – Succession plan, education & evaluation (not significant)
- **Director 3** – Meeting & information (not significant)

Director 9 has the least significant ability in explaining Tobin's Q even though it has the highest integrity value. As compared to Director 5, it has the highest statistical significant in explaining Tobin's Q. Director 4, 2, 8 and 3 were not significant in explaining Tobin's Q.

9.6.2 Directors' remuneration - Corporate integrity and performance

The Directors' remuneration factors were analysed to see the relationship between company integrity value and company performance. The following result reports on the strength of the relationship between the factors and company performance. Directors' remuneration factors explains 19.7% of the variance in perceived of Return on Capital Employed (ROC), Directors' remuneration factors explains 15.1% of the variance in perceived of Return on Asset (ROA), Directors' remuneration factors explains 11.4% of the variance in perceived of Tobin's Q. Directors' remuneration factors are not significance in explaining Return on Operating Cash Flow (CFA).

Below were the results on the strength of individual governance factors in explaining company performance. It is being rank according to the beta value.

Ranking of 3 Directors' Remuneration factors in predicting ROC

- **Directors' remuneration 1** – Attractive & transparent procedure (.425 beta value)
- **Directors' remuneration 2** – Performance driven & formal procedure (not significant)
- **Directors' remuneration 3 –** Reward criteria (not significant)

Even thought Directors' remuneration 2 **wa**s having the highest integrity value, it can't predict and explain ROC. Only Directors' remuneration 1 can explain and predict ROC.

Ranking of 3 Directors' Remuneration factors in predicting ROA

- **Directors' remuneration 1** – Attractive & transparent procedure (.343 beta value)

- **Directors' remuneration 2** – Performance driven & formal procedure (not significant)
- **Directors' remuneration 3 –** Reward criteria (not significant)

Again Directors' remuneration 2 can't explain ROA even though it has the highest integrity value. Even Directors' remuneration 3 was not significant in predicting ROA except for Directors' remuneration 1.

Ranking of 3 Directors' Remuneration factors in predicting CFA

- **Directors' remuneration 1** – Attractive & transparent procedure (not significant)
- **Directors' remuneration 2** – Performance driven & formal procedure (not significant)
- **Directors' remuneration 3 –** Reward criteria (not significant)

The entire factors were not significant in explaining and predicting CFA.

Ranking of 3 Directors' Remuneration factors in predicting Tobin's Q

- **Directors' remuneration 1 –** Attractive & transparent procedure (-.244 beta value)
- **Directors' remuneration 2 –** Performance driven & formal procedure (-.226 beta value)
- **Directors' remuneration 3 –** Reward criteria (not significant)

Directors' remuneration 1 and 2 can predict and explain Tobin's Q. Directors' remuneration 3 doesn't have any statistical significant in explaining and predicting Tobin's Q.

9.6.3 Shareholders - Corporate integrity and performance

The Shareholders factors were analysed to see the relationship between company integrity value and company performance. The following result reports on the strength of the relationship between the factors and company performance. Shareholders factors explains 15.7% of the variance in perceived of Return on Capital Employed (ROC), Shareholders factors explains 17.5% of the variance in perceived of Return on Operating Cash Flow (CFA) and Shareholders factors explains 42.0% of the variance in perceived of Tobin's Q. Shareholders factors were not significance in explaining Return on Asset (ROA).

Next were the results on the strength of individual governance factors in explaining company performance. It was being rank according to the beta value.

Ranking of 4 Shareholders factors in predicting ROC

- **Shareholder 1** – Dividend policy & related party transaction (.380 beta value)
- **Shareholder 2 –** AGM & annual report (not significant)
- **Shareholder 3 –** EGM & announcement (not significant)
- **Shareholder 4 –** AGM function (not significant)

Shareholder 2 which has the highest integrity value was not significant in explaining ROC, together with Shareholder 3 and 4. Only Shareholder 1 can predict and explain ROC.

Ranking of 4 Shareholders factors in predicting ROA

- **Shareholder 1** – Dividend policy & related party transaction (.237 beta value)
- **Shareholder 2 –** AGM & annual report (not significant)
- **Shareholder 3 –** EGM & announcement (not significant)

- **Shareholder 4 –** AGM function (not significant)

Again, only Shareholder 1 has the statistical significant in predicting ROA even though it was being rank last in term of integrity value. The rest of the factors were not significant in explaining ROA.

Ranking of 4 Shareholders factors in predicting CFA

- **Shareholder 1** – Dividend policy & related party transaction (-.372 beta value)
- **Shareholder 2 –** AGM & annual report (not significant)
- **Shareholder 3 –** EGM & announcement (not significant)
- **Shareholder 4 –** AGM function (not significant)

Once again, only Shareholder 1 has the statistical significant in predicting CFA even though it was being rank last in term of integrity value. The rest of the factors were not significant in explaining CFA.

Ranking of 4 Shareholders factors in predicting Tobin's Q

- **Shareholder 1** – Dividend policy & related party transaction (-.433 beta value)
- **Shareholder 3 –** EGM & announcement (-.418 beta value)
- **Shareholder 2 –** AGM & annual report (.240 beta value)
- **Shareholder 4 –** AGM function (not significant)

Only Shareholder 4 was not significant in predicting Tobin's Q. The rest of the factors can predict and explain Tobin's Q.

9.6.4 Accountability & Audit - Corporate integrity and performance

The Accountability & Audit factors were analysed to see the relationship between company integrity value and company performance. The following result reports on the strength of the relationship between the factors and company performance.

Accountability & audit factors explains 12.8% of the variance in perceived of Return on Capital Employed (ROC), Accountability & audit factors explains 27.2% of the variance in perceived of Return on Asset (ROA) and Accountability & audit factors explains 33.2% of the variance in perceived of Tobin's Q. Accountability & audit factors were not significance in explaining Return on Operating Cash Flow (CFA).

The following results reports on the strength of individual governance factors in explaining company performance. It was being rank according to the beta value.

Ranking of 4 Accountability & Audit factors in predicting ROC

- **Accountability & Audit 1 –** Internal control & information (.298 beta value)
- **Accountability & Audit 4 –** Board, audit committee & external auditor (.179 beta value)
- **Accountability & Audit 2 –** Report release & auditing (not significant)
- **Accountability & Audit 3 –** Audit committee (not significant)

Even though Accountability & Audit 2 was being rank first having integrity value, it was not significant in predicting ROC. Accountability & Audit 3 was also not able to explain ROC. Accountability & Audit 1 and Accountability & Audit 4 can predict and explain ROC.

Ranking of 4 Accountability & Audit factors in predicting ROA

- **Accountability & Audit 2 –** Report release & auditing (-.397 beta value)
- **Accountability & Audit 4 –** Board, audit committee & external auditor (.250 beta value)
- **Accountability & Audit 1 –** Internal control & information (.224 beta value)
- **Accountability & Audit 3 –** Audit committee (not significant)

Accountability & Audit 2 that has the highest integrity value has also being rank first in predicting ROA. The other factor can also predict and explain ROA except for Accountability & Audit 3.

Ranking of 4 Accountability & Audit factors in predicting CFA

- **Accountability & Audit 3 –** Audit committee -.274 beta value)
- **Accountability & Audit 1 –** Internal control & information (not significant)
- **Accountability & Audit 2 –** Report release & auditing (not significant)
- **Accountability & Audit 4 –** Board, audit committee & external auditor (not significant)

Only Accountability & Audit 3 has the statistical significant in predicting CFA. The other factor can't predict and explain CFA.

Ranking of 4 Accountability & Audit factors in predicting Tobin's Q

- **Accountability & Audit 2 –** Report release & auditing (-.413 beta value)
- **Accountability & Audit 1 –** Internal control & information (-.360 beta value)
- **Accountability & Audit 4 –** Board, audit committee & external auditor (-.153 beta value)
- **Accountability & Audit 3 –** Audit committee (not significant)

Once again Accountability & Audit 2 that has the highest integrity value has also being rank first in predicting Tobin's Q. The other factor can also predict and explain Tobins Q except for Accountability & Audit 3.

9.6.5 Business Ethics & Responsibility - Corporate integrity and performance

The factor was analysed to see the relationship between company integrity value and company performance. The following result reports on the strength of the relationship between the factor and company performance. Business ethics & responsibility factor explains 21.4% of the variance in perceived of Return on Capital Employed (ROC), Business ethics & responsibility factor explains 7.3% of the variance in perceived of Return on Operating Cash Flow (CFA) and Business ethics & responsibility factor explains 19.5% of the variance in perceived of Tobin's Q. Business ethics & responsibility factor are not significance in explaining Return on Asset (ROA).

The following results reports on the strength of the governance factor in explaining company performance. It is presented by the beta value.

Business Ethics & Responsibility factor in predicting ROC

- **Business Ethics & Responsibility 1 –** Code of ethics & Whistle blower policy (.463 beta value)

Business Ethics & Responsibility 1 has the statistical significant in explaining ROC.

Business Ethics & Responsibility factor in predicting ROA

- **Business Ethics & Responsibility 1 –** Code of ethics & Whistle blower policy (.193 beta value)

Business Ethics & Responsibility 1 has the statistical significant in explaining ROA.

Business Ethics & Responsibility factor in predicting CFA

- **Business Ethics & Responsibility 1 –** Code of ethics & Whistle blower policy (-.269 beta value)

Business Ethics & Responsibility 1 has the statistical significant in explaining CFA.

Business Ethics & Responsibility factor in predicting Tobin's Q

- **Business Ethics & Responsibility 1 –** Code of ethics & Whistle blower policy (-.442 beta value)

Business Ethics & Responsibility 1 has the statistical significant in explaining Tobin's Q.

9.6.6 Intellectual Capital - Corporate integrity and performance

The Intellectual capital factors were analysed to determine the relationship between company integrity value and company performance. The following result reports on the strength of the relationship between the factors and company performance. Intellectual capital factors explains 29.2% of the variance in perceived of Return on Capital Employed (ROC), Intellectual capital factors explains 25.5% of the variance in perceived of Return on Asset (ROA) and Intellectual capital factors explains 16.9% of the variance in perceived of Tobin's Q. Intellectual capital factors were not significance in explaining Return on Operating Cash Flow (CFA).

The following results reports on the strength of individual governance factors in explaining company performance. It was being rank according to the beta value.

Ranking of 2 Intellectual Capital factors in predicting ROC

- **Intellectual Capital 2 –** Appreciation & implementation (.540 beta value)
- **Intellectual Capital 1 –** Recognition (not significant)

Intellectual Capital 2 which has the highest integrity value has also being rank first in predicting ROC. Intellectual Capital 1 can't predict and explain ROC.

Ranking of 2 Intellectual Capital factors in predicting ROA

- **Intellectual Capital 2 –** Appreciation & implementation (.477 beta value)
- **Intellectual Capital 1 –** Recognition (-.165 beta value)

Again Intellectual Capital 2 which has the highest integrity value has also being rank first in predicting ROA. Intellectual Capital 1 can also predict and explain ROA.

Ranking of 2 Intellectual Capital factors in predicting CFA

- **Intellectual Capital 1 –** Recognition (not significant)
- **Intellectual Capital 2 –** Appreciation & implementation (not significant)

Both factors were not significant in explaining and predicting CFA.

Ranking of 2 Intellectual Capital factors in predicting Tobin's Q

- **Intellectual Capital 2 –** Appreciation & implementation (-.359 beta value)
- **Intellectual Capital 1 –** Recognition (-.202 beta value)

Once again Intellectual Capital 2 which has the highest integrity value has also being rank first in predicting Tobin's Q. Intellectual Capital 1 can also predict and explain Tobin's Q.

9.6.7 Disclosure - Corporate integrity and performance

The factors were analysed to see the relationship between company integrity value and company performance. The following result reports on the strength of the relationship between the factors and company performance. Disclosure factors explains 42.8% of the variance in perceived of Return on Capital Employed (ROC), Disclosure factors explains 26.0% of the variance in perceived of Return on Asset (ROA), Disclosure factors explains 16.9% of the variance in perceived of Return on Operating Cash Flow (CFA) and Disclosure factors explains 27.0% of the variance in perceived of Tobin's Q.

The following results reports on the strength of individual governance factors in explaining company performance. It is being rank according to the beta value.

Ranking of 4 Disclosure factors in predicting ROC

- **Disclosure 1 –** Auditing, audited report & board responsibility (.478 beta value)
- **Disclosure 4 –** Board remuneration & benefit (-.330 beta value)
- **Disclosure 2 –** Internal control, AGM notice & lead control (.219 beta value)
- **Disclosure 3 –** Board profile, third party transaction & remuneration committee (.206 beta value)

Disclosure 1 which has the highest integrity value has also being rank first in predicting ROC. All the other factors can also predict and explain ROC.

Ranking of 4 Disclosure factors in predicting ROA

- **Disclosure 3 –** Board profile, third party transaction & remuneration committee (.374 beta value)
- **Disclosure 4 –** Board remuneration & benefit (-.251 beta value)
- **Disclosure 2 –** Internal control, AGM notice & lead control (.240 beta value)
- **Disclosure 1 –** Auditing, audited report & board responsibility (not significant)

Disclosure 1 which has the highest integrity value can't explain and predict ROA. All the other factors can predict and explain ROC.

Ranking of 4 Disclosure factors in predicting CFA

- **Disclosure 1 –** Auditing, audited report & board responsibility (-.339 beta value)
- **Disclosure 4 –** Board remuneration & benefit (-.176 beta value)
- **Disclosure 2 –** Internal control, AGM notice & lead control (not significant)
- **Disclosure 3 –** Board profile, third party transaction & remuneration committee (not significant)

Again Disclosure 1 which has the highest integrity value has also being rank first in predicting CFA. The other factor which is Disclosure 4 also have the statistical significant in explaining and prediction CFA.

Ranking of 4 Disclosure factors in predicting Tobin's Q

- **Disclosure 1 –** Auditing, audited report & board responsibility (-.492 beta value)
- **Disclosure 2 –** Internal control, AGM notice & lead control (not significant)
- **Disclosure 3 –** Board profile, third party transaction & remuneration committee (not significant)
- **Disclosure 4 –** Board remuneration & benefit (not significant)

Once again Disclosure 1 which has the highest integrity value has also being rank first in predicting Tobin's Q. All the other factors can't predict and explain Tobin's Q.

Summary

Overall the final stage of the investigation assesses company corporate integrity value by validating corporate governance reporting practices with board and top management perception about their company corporate governance practices. The average variance calculated indicates the value of discrepancy between corporate governance reporting and survey. The lowest average variance calculated shows the consistency between reported corporate governance information and perceptions and opinions of board of director and top management regarding their company corporate governance. This relates to the integrity concept of having consistency of values and actions or words and deeds which is being defined by Kimber and Lucas (2001) and Rasmussen (2011). Then the relationship between company corporate integrity value and performance were investigated. The last stage of the investigation answers how corporate governance indicators can be used to measure corporate integrity and the relationship between corporate integrity value and corporate performance.

9.7 Study Findings

9.7.1 Issues on Malaysian corporate governance practices and understanding of corporate integrity (Addressing first research question)

Based on the results from the phase one data collection, the following is a summary of the findings:

Effective and reliable corporate governance reporting

Previous research shows that there is an ongoing debate on the appropriate approach to assessing and analysing corporate governance practices. The literature review which described previous studies (Thompson and Hung 2002; Kraakman 2004; Che Haat, Mahenthiran et al. 2005; Le Pla 2005; Fasterling 2006; Grimaud 2006; Rao 2007) suggested that corporate governance indicators were limited in their ability to measure and report governance practices and unreliable as indicators of efficient or effective performance in companies. At present, the common techniques used to analyse corporate governance practices were based on reviewing annual reports (Horwath 2002; Horwath 2003), but effectiveness and the reliability of corporate governance reporting was an issue among Malaysian Government Link Companies (GLCs). The accuracy and reliability of reported information was questionable since all of the interviewee's viewed corporate governance practices were more than what was reported in the annual report.

The present rule based governance system was seriously limited since the accuracy and reliability of corporate governance reporting were not being addressed and it has created an era of corporate conformance of ticking boxes, running through the drill and complying with all the codes (Le Pla 2005; Grimaud 2006; Rao 2007 and Rasmussen 2011). The practice of ticking off boxes for compliance may and can only lead to a false sense of security that the right judgements and right actions were being taken.

Understanding of corporate integrity concept

Integrity was defined as having a good human value and a good system value. Corporate integrity was viewed as part of corporate governance indicating that a company walks its talk. Factors that contribute to the issues and challenges in maintaining integrity can be divided into two; Internal factors and external factors. Internal factors referred to company values, board leadership, company resources, company structure and system. External factors that influence company integrity were business politics, business environment, industry pressure, government rules and regulation and authority pressure.

As a conclusion, the findings provide direction to the study on how to measure and model integrity using corporate governance indicators. Since company are ultimately controlled and run by the board, asking them about the company corporate governance practices would provide an insight perspective which is a step further than the current method of assessing and measuring corporate governance practices. Validating corporate governance reporting by benchmark it against the board of director and top management perceptions and opinions on their company corporate governance practices perhaps measure company integrity value. The consistency between corporate governance reporting practices and board of directors and top management perceptions and opinions on corporate governance practices relates to integrity concept which is having consistency of values and actions or words and deeds, being honourable, honest, loyal, faithful and trustworthy.

Importance of boards of directors

The importance of boards of directors was highlighted as they significantly influenced a company's corporate governance practice. When the Malaysian Securities Commission (SC) revised the Malaysian Code on Corporate Governance and issued the revised Code, the key amendments to the Code aimed at strengthening the board of directors and audit committees, and ensuring that the board of directors and audit committees discharge their roles and responsibilities effectively. This has clearly shown the Malaysian government concern about the need to improve board effectiveness from not just 'conforming' to also 'performing'. Society hopes that companies will perform their duties and responsibilities ethically and with transparency through the board. Since the board of directors were responsible to deliver sufficient information to shareholders and were entrusted by the owners to control the company, it would be meaningful to introduce their roles, compliance with the expectations of agency theory to verify the accuracy and reliability of all information in the annual reports and hence reflect the actual corporate governance practices in the company.

Validation of corporate governance reporting

There appeared to be strong support for validation of corporate governance reporting. This was an interesting result as all interviewees from expert group and most of the practitioners tended to agree that validation of corporate governance reporting perhaps disclosed good corporate governance practices and integrity value. As the auditing model which agency theory provides only centres on the verification of financial reports by the auditor to confirm the reliability of the financial information, thus other information that the board of directors and management (agent) of the firm provides to the shareholders / owners in the annual report was absence of verification. If honest reporting is not reliable, disclosure rules rapidly become inefficient, and must instead depend solely on enforcement and verification measures.

9.7.2 Propositions measurement and acceptance of hypotheses (Addressing second, third, fourth and fifth research questions)

Based on the research findings from phase two and phase three, the following propositions and hypotheses were measured and tested;

Proposition 1: Corporate governance indicators can model and assess corporate integrity.

The following were the factors perceived to be able to model and assess corporate integrity based on the seven corporate governance indicators.

Nine Directors factors were perceived to be able to model and measure corporate integrity based on corporate governance basic principles and best practices. The nine factors resulted in the following factor labels; Director 1, Director 2, Director 3, Director 4, Director 5, Director 6, Director 7, Director 8 and Director 9.

Three Directors' Remuneration factors were perceived to be able to model and measure corporate integrity based on corporate governance basic principle. The factors were labels as follows; Directors' Remuneration 1, Directors' Remuneration 2 and Directors' Remuneration 3.

Four Shareholders factors were perceived to be able to model and assess corporate integrity based on corporate governance basic principle and best practice. It has resulted in the following factor labels; Shareholders 1, Shareholders 2, Shareholders 3 and Shareholders 4.

Four Accountability & Audit factors were perceived to be able to model and assess corporate integrity based on basic principle and best practice of corporate governance. It resulted in the following factor labels; Accountability & Audit 1, Accountability & Audit 2, Accountability & Audit 3 and Accountability & Audit 4.

Only one Business Ethics & Responsibility factor was perceived to be able to model and assess corporate integrity. It was based on world best practice. The factor resulted in the following factor label; Business Ethics & Responsibility 1.

Two Intellectual Capital factors were selected in modelling and assessing corporate integrity. It was based on world best practice. The two factors resulted in the following factor labels; Intellectual Capital 1 and Intellectual Capital 2.

Four Disclosure factors were perceived to be able to model and assess corporate integrity. It refers to paragraph 15.26 of the *Listing Requirements of Bursa Malaysia*. The four factors resulted in the following factor labels; Disclosure 1, Disclosure 2, Disclosure 3 and Disclosure 4.

Proposition 2: The higher the level of total variance explained by a factor, the greater the importance of the factor in modelling and assessing corporate integrity.

The following were the factors that were identified as the most importance and significant in modelling and assessing corporate integrity based on the seven corporate governance indicators.

Director 1 was identified as the most significant factor in assessing director’s integrity. This factor accounted for 38.3% of the total variance explained by all factors. It addresses the board roles, responsibility, authority, competencies, training and participation in decision making process.

Directors’ Remuneration 1 was identified as the most significant factor in assessing board of director agreement on the procedures, level and make-up of remuneration in the company. It accounted for 44.3% of the total variance explained by all factors.

Based on the analyses result, it can be surmised that, factor Shareholders 1 was the most significant component in looking at communication aspects that exists between company and investors. This factor accounted for 33.7% of the total variance explained by all factors.

Factor Accountability & Audit 1 was the most significant component in addressing issues about board responsibility and accountability to safeguard shareholders’ investment, company assets and maintain a sound internal control system. This factor accounted for 46.6% of the total variance explained by all factors.

Business Ethics & Responsibility 1 was identified as the most significant component in addressing issues about board responsibility in ensuring company management and employees uphold the highest level of ethical values and responsibilities. This factor accounted for 58.6% of the total variance explained by other factor, validating its strength.

Intellectual Capital 1 was identified as the most significant component in addressing issues referring to board appreciation and reorganization of intellectual capital in the company. This factor accounted for 62.9% of the total variance explained by all factors.

Disclosure 1 was the most significant component in addressing issues about disclosure. This factor accounted for 44.6% of the total variance explained by all factors.

Hypothesis 1 (H_1): That the level of consistency between corporate governance perception and corporate governance reporting practices will be positively related to the integrity value.

The following were the factors that have the highest integrity value based on the seven corporate governance indicators.

Director 9 which referred to board independency and competencies in accounting and finance shows the highest consistency between corporate governance reporting practices and corporate governance perceptions. This indicates Director 9 scored the highest integrity value.

Directors' remuneration 2 which address the formal procedure for developing and fixing the remuneration packages and the executive director's remuneration based on individual performance shows the highest integrity value. The factor show high consistency between corporate governance reporting practices and corporate governance perceptions.

Shareholder 2 was ranked first in term of having high integrity value referred to the procedures and conduct of AGM as well as communication with shareholders through annual reports. The factor shows consistency in reporting on voting procedure at AGM and proxies rights at AGM with board and top management perceptions.

Accountability & Audit 2 was ranked first in terms of having high integrity value. This factor addresses issues on transparent relationship with external auditor and the need for the audit committee members to be financially literate. This factor also refers to the release of the audited report to public within 120 days or 4 months of the balance day adjustment. The factor shows consistency between corporate governance perceptions and reporting practices.

Business Ethics & Responsibility 1 relates to the board responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. This is the only factor identified under Business Ethics & Responsibility and it shows inconsistency between corporate governance reporting practices and perceptions which indicate low integrity value in this area.

Intellectual Capital 2 refers to how board recognize the importance of intellectual capital by including it in the company strategic planning agenda; approves the allocation of a large amount of expenditure to the employees or staff training and development; approves the company investment in IT related assets and company has a detail and formal staff health or safety measures. Even though it was ranked first in having integrity value for Intellectual Capital factors, it shows high inconsistency between corporate governance reporting practice and perception which indicate low integrity value in this area.

Disclosure 1 has been rank first in having integrity value. It addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship.

Hypothesis 2(H_2): That there will be a positive relationship between the integrity value of a company and corporate performance.

The following were the factors that have the highest integrity value or being ranked first based on the governance factors identified earlier and its ability in influencing and explaining company performance (ROA, ROC, CFA and Tobin's Q).

Director 9 shows the highest integrity value. Even though it has the highest integrity value, its strength in explaining ROC was just being ranked third out of nine Directors factors. It's statistical significant in explaining ROA was just being ranked fourth and it is not significant in explaining CFA. Director 9 has the least significant ability in explaining Tobin's Q.

Directors' remuneration 2 shows the highest integrity value. Even though it has the highest integrity value, it cannot predict and explain ROC. This factor also was not significant in predicting and explaining ROA and CFA. It was being ranked second out of the three Director's remuneration factors in predicting and explaining Tobin's Q.

Shareholder 2 has the highest integrity value. This factor was found not significant in explaining and predicting ROC, ROA and CFA. It was only being ranked third out of four Shareholders factors in predicting Tobin's Q.

Accountability & Audit 2 was rank first in term of having high integrity value. This factor was found not significant in predicting ROC and CFA. Never the less it was rank first out of four Accountability & Audit factors in predicting ROA and Tobin's Q.

Business Ethics & Responsibility 1 shows low integrity value but it has the statistical significant in explaining ROA, ROC, CFA and Tobin's Q.

Intellectual Capital 2 indicates low integrity. Never the less this factor was ranked first out of two Intellectual Capital factors in predicting ROC, ROA and Tobin's Q but was found insignificant in explaining and predicting CFA.

Disclosure 1 has been rank first in having integrity value. This factor was ranked first in predicting ROC, CFA and Tobin's Q but can't explain and predict ROA.

9.8 Summary

The above discussion provides some arguments and summarised the key findings in the current study. The measures and hypotheses testing of propositions were in accordance with the present research's objectives. The next chapter is the concluding chapter which gives an overview of the results discussed so far. It also provides clear recommendations on how to improve measurement of corporate governance among Malaysian public listed companies.

CHAPTER 10: CONCLUSION

10.1 Chapter Description

This chapter provides the conclusion of the study and describes its contributions, limitations and suggestions for future research.

10.2 Conclusion of the Study

The study found support for the notion that companies corporate governance practices were of a higher standard than what was reported and disclosed in the annual reports. It confirmed that the present rule-based governance system does not promote accurate and reliable corporate governance reporting. The issues of accuracy and reliability of reported information was identified in this study and it was in line with Che Haat et al (2005) finding that users demanded more from the contents of the annual reports and feels that annual reports failed to convey useful information. As Standard and Poors (2004) revealed most of the companies in Malaysia still fall short of good global disclosure practices (Standard & Poors 2004; Toh 2004). This issue was addressed by this research where the findings supported the development of a disclosure framework appropriate for the Malaysian context.

As discussed in Chapter 2, too many companies engage in governance practices that require ticking boxes and running through drills to comply with codes (Le Pla 2005). Ticking off boxes for compliance does not guarantee honest and accurate reporting (Kraakman 2004; Fasterling 2006). This study confirms the need to validate reported information and to collect further information about the integrity of the companies.

As the code of corporate governance recommended that the boards of directors should deliver sufficient and reliable information to shareholders, asking them about the company corporate governance practices seems to be fair since it provides an insight into the behavioural implications of the human beings. Based on the evidence from this research, an auditing model incorporating this information and supported by the measures developed in this study would meet this need.

The study drew on three theories to develop its conceptual foundation, agency theory which provides the rationale for the need for an integrity measure, definitions of integrity from Fasterling (2006) and Kimber and Lucas's (2001) proposition that integrity is related to consistency of values and actions.

This study contributes to Agency theory by proposing a new auditing model (Figure 10.1) which integrates behavioural implications (of board of directors and top management) involved in the production and management process and introducing the integrity concept (consistency of corporate governance reporting and perceptions) in corporate governance research.

Fasterling (2006) defined corporate integrity in a corporation as being unimpaired, complete and having functional stability and about limiting behaviour that lacks integrity with regard to the corporation's activities. The interviewees viewed corporate integrity as part of corporate governance where it resulted from good corporate governance practice in the company. They concurred with Fasterling's (2006) claim that the contributors to the present worldwide corporate governance discussion saw corporate governance as a vehicle to restore public faith in the integrity of business.

Kimber and Lucas's (2001) integrity concepts were integrated into the model. The proposed model provides an auditing model to verify corporate governance reporting. This study confirmed Kimber and Lucas's (2001) proposition that the concept of integrity is related to consistency of values and actions or words and deeds; they further define integrity as being honourable, honest, loyal, faithful and trustworthy. Benchmarking corporate governance reporting against corporate governance perceptions in order to see the consistency of the information introduces integrity concept. The integrity value of the company is measured from this validation process.

In addressing Fasterling's (2006) statement, the study identified corporate governance indicators which were perceived to be able to model and assess corporate integrity. These governance indicators were based on the Malaysian Code on Corporate Governance (basic principle and best practices) and world best practices on corporate governance. The governance indicators were: nine Directors factors, three Directors' Remuneration factors, four Shareholders factors, four Accountability & Audit factors, one Business Ethics & Responsibility factor, two Intellectual Capital factors and four Disclosure factors. They were identified by the board of directors and top management.

Agency theory was the theory underlying the study framework. The theory leads to the need for corporate governance to protect the interests of those contracting parties in a company. The theory also provides a natural basis for the auditing model in a decision setting involving moral hazard.

In addressing Fasterling's (2006) statement, the study identified corporate governance indicators which were perceived to be able to model and assess corporate integrity. These governance indicators were based on the Malaysian Code on Corporate Governance (basic principle and best practices) and world best practices on corporate governance. The governance indicators were: nine Directors factors, three Directors' Remuneration factors, four Shareholders factors, four Accountability & Audit factors, one Business Ethics & Responsibility factor, two Intellectual Capital factors and four Disclosure factors. They were identified by the board of directors and top management.

In relation to which governance factors are important and significant in modelling and assessing corporate integrity, the study discovered the following factors: Director 1 which addresses the board roles, responsibility, authority, competencies, training and participation in decision making process, Directors' Remuneration 1 which addresses the role of the remuneration committee and the transparency of procedure for developing and fixing the remuneration packages, Shareholders 1 which addresses on how company communicate their dividend policy to the shareholder and company acquiring shareholder approval for related party transaction, Accountability & Audit 1 which relates to the board responsible in making an assessment on the internal control status and control measure on financial, operational, compliance control and risk annually, Business Ethics & Responsibility 1 which talks about board responsibility in ensuring company management and employees uphold the highest level of ethical values and responsibilities, Intellectual Capital 1 which refers to board appreciation and reorganization of intellectual capital as one of the most important assets in the company and Disclosure 1 which addresses issues about disclosure of information regarding audit committee assessment of the adequacy of the annual internal audit, company relationship with external auditor, time frame of the audited report being releases to the public, board understanding of their responsibilities about company internal control and the independent director's responsibility and relationship.

The study also investigated the relationship between integrity and corporate performance. It was perceived that the higher the integrity value of the factor, the better it is in explaining and predicting corporate performance. The study discovered the following relationship: Directors 9 which scored a high integrity value shows a weak relationship in predicting ROC, ROA and Tobin’s Q. This factor was found not significant in explaining CFA. Directors’ Remuneration 2 which scored high integrity value was found not significant in explaining and predicting ROC, ROA and CFA. There is a weak relationship for the factor in explaining Tobin’s Q. This was the same as Shareholder 2, which scored high integrity value but failed to predict ROC, ROA and CFA. The factor just has a weak ability in predicting Tobin’s Q.

For Accountability & Audit 2 that scored a high integrity value, the factor was found to have a strong ability in predicting ROA and Tobin’s Q but cannot explain ROC and CFA. Business Ethics & Responsibility 1 which has low integrity value predicted the performance in terms of ROA, ROC, CFA and Tobin’s Q. Another factor with low integrity value, Intellectual Capital 2 has a strong ability to predict ROC, ROA and Tobin’s Q but cannot explain CFA. The last factor, Disclosure 1 which scored high integrity value seems to have strong ability in predicting ROC, CFA and Tobin's Q, but the factor was found not significant in predicting ROA.

The conclusion from these results is that integrity value does not necessarily result in good corporate performance. A company may have a high integrity value but it does not mean that they performed well. There is no unified theory linking integrity and performance even in corporate governance research. The explanation for the mixed results appears to be that lack of this theory has resulted in studies focusing on the relationship between a particular aspect of governance and a chosen measure of performance.

Nevertheless, the research makes a contribution to knowledge by providing empirical evidence regarding the use of corporate governance indicators in assessing corporate integrity. It also introduces an auditing model that verifies corporate governance reporting and ensures the accuracy and reliability or the reported information.

10.3 Contributions of the Study

10.3.1 Contributions to body of knowledge

The results of this thesis contribute to the body of knowledge in the area of corporate governance and corporate integrity. Specifically, this thesis offers an auditing model to verify corporate governance reporting which measures integrity value. The pursuit of integrity measures and their validation arises because annual reports are seen as a communication medium between owners and management. Annual reports may say one thing, when in reality the company is doing something else (Rasmussen 2011). Integrity is violated when directors and management do not adhere to what may be good company policies and procedures. Shareholders / owners rely on annual reports in order to know what is happening in the company in which they invest. Agency theory only provides an auditing model which centres on the verification of financial reports by the auditor to confirm of the reliability of the financial information, but there is no verification on other information that the board of directors and management (agent) of the firm provides to the shareholders / owners in the annual report.

Expansion of the current corporate governance reporting frameworks to include integrity value would introduce a new dimension reflecting human behaviour and values and assure verification and reliability in what was reported. Benchmarking the corporate governance reporting against corporate governance perception in order to see the consistency of the information would not only introduce the integrity concept but engage companies in a competitive process that encouraged integrity in corporations. Integrity is a continuous and ongoing process that must be monitored, maintained and nurtured (Rasmussen 2011).

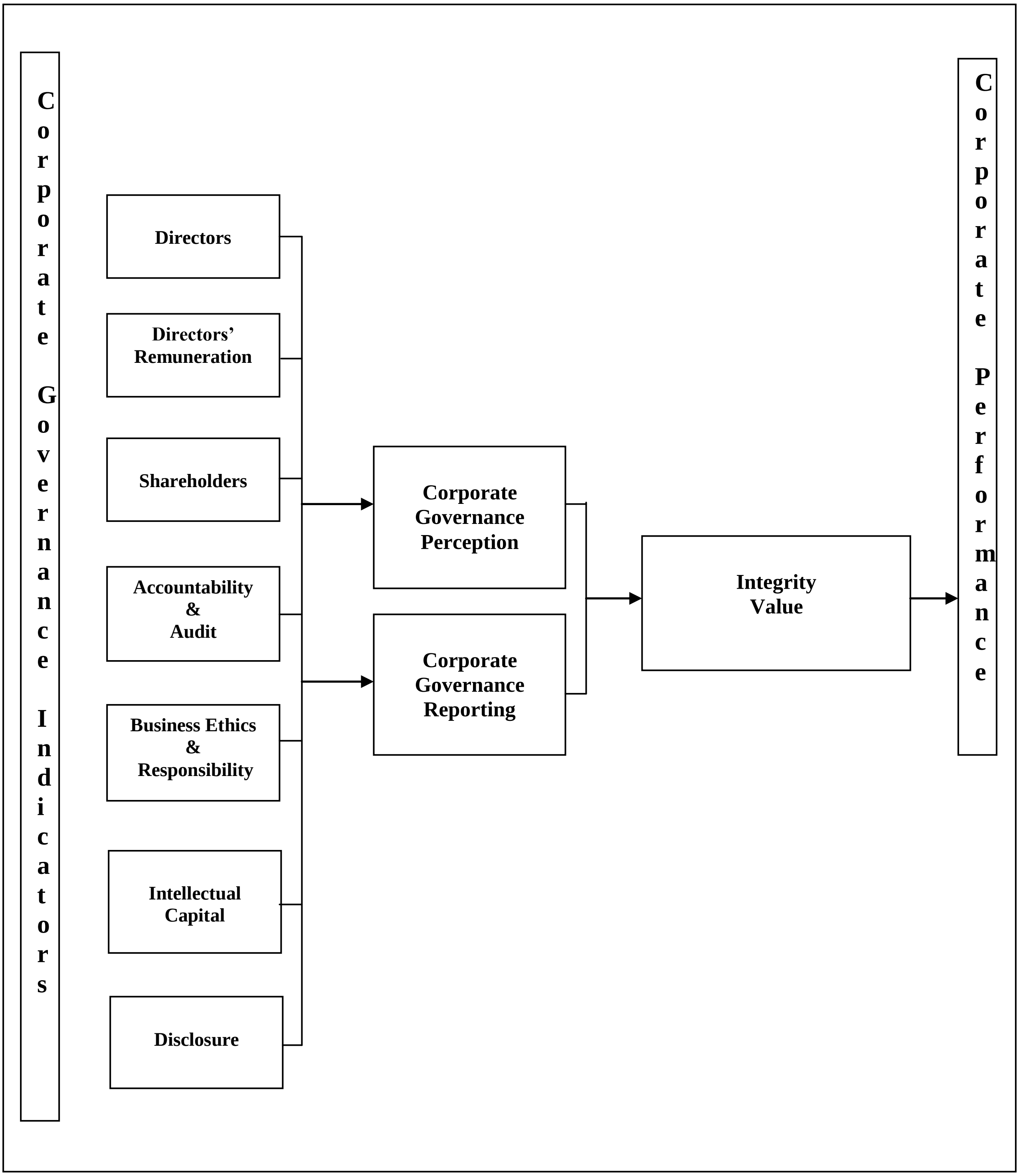

Figure 10.1. Proposed auditing model to assess integrity using corporate governance indicators.

10.3.2 Contributions to practice

From a practical perspective, this study provides feedback to the Malaysian corporate governance regulators and policy makers (e.g Bursa Malaysia, Security Commission, MICG, MCCG and Malaysian Institute of Integrity) to assist in developing policies that support and improve the Malaysian disclosure framework. The proposed model opens up and stimulates new ideas on how the Malaysian disclosure framework can be improved to ensure accurate and reliable reporting.

The study also addressed the question of whether the Malaysian Code on Corporate Governance is indeed of value and has achieved what it is supposed to achieve, that is enabling shareholders and the public to assess and determine the standards of corporate governance by listed companies. Empirical evidence from the thesis provides an answer to the above question which highlights the codes strength and weakness.

In addition to that, the results would also contribute to the development of the first national integrity assessment instrument. The movement to enhance integrity in the Malaysian private sector was guided by the National Integrity Plan (NIP) but nonetheless, there is no measurement instrument to measure the results thus far following the introduction of the NIP in 2004 (Ravendran 2006). The proposed model would provide tools to measure company integrity value thus complementing the NIP. The successfulness of NIP is crucial as its overall objective was to realize the aspirations of vision 2020, that is;

> "*to establish a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards*". (Badawi 2004)

10.4 Limitations of the Study

The limitations associated with all the three stage of data collections for this study are set out below.

10.4.1 Stage one research limitation

As discussed in chapter 5 on the research methodology, qualitative research has been criticized for being too impressionistic, subjective unsystematic (Bryman 2008) masking complexity, and requiring high levels of care and self-awareness on behalf of the researcher (Miles and Huberman 1994). Compared to quantitative research, qualitative research can be significantly more time consuming and difficult to replicate (Bryman 2008). Furthermore, reliance on qualitative data makes significance testing and acceptance, or rejection, of hypotheses difficult (Cooper and Schindler 2003).

This research was not significantly affected by this limitation as a mixed-method approach was adopted. Furthermore the intention of stage one was to map the current practices of corporate governance and to understand the corporate integrity concept. It also enabled the researcher to pre-test and validate the questionnaire to ensure a more appropriate and sensitive survey questionnaire was established.

Qualitative data is frequently maligned as ‘scientifically worthless’ because they do not meet minimal requirements for comparison (Cooper and Schindler 2003). Again, qualitative research in this project was used to validate concepts rather than enable scientific comparison. Qualitative findings are also restricted because it is impossible to make a generalization to other settings (Bryman 2008). In this study the findings referred to the Malaysian government link companies.

Too much of information can be gathered in qualitative research. This can result in more ‘noise’ than information. A large amount of information was collected during stage one interviews and in summarising and coding this information some detail may have been lost. To minimise this risk, where it was necessary, direct quotes were used in the presentation of results.

10.4.2 Stage two research limitations

Surveys are a widely used technique for gathering data from large populations. The advantages of a survey questionnaire are: cheaper to administer, quicker to administer, absence of interview affects which minimises the social desirability bias, no interviewer variability and it is convenient for respondents (Bryman 2008).

Despite these advantages, surveys also have limitations. Among the limitations of surveys are: questionnaire can be read as a whole which means respondent may not answer according to the order; the research may not know who answers the questionnaire; there is a , greater risk of missing data and in particular, of lower response rates which can restrict the effectiveness of surveys (Bryman 2008). Few surveys have a 100% response rate and it is hard to know whether a non-respondent has refused to participate or was just indifferent (Zikmund 1994). The reasons for not responding to the survey invitation include respondents considering they lacked sufficient knowledge of the topic or unable to find time. People who do respond may hold strong views on the question asked relative to those who did not respond. This view may then be overrepresented (Czaja and Blair 1996).

This technique has also been criticised due to its possible lack of response and the inability to verify the responses given (Kerlinger and Lee 2000). The investigator is also prevented from learning the respondent's motivation for answering questions and respondents may be limited from providing free expression of opinions due to instrument design (Orlich 1978).

Samples in stage two were limited to 35 government link companies in Malaysia which were listed in Bursa Malaysia as of 31 of December 2008. The participants for the survey questionnaire were only from these companies. Data gathered from this stage were analysed using only multivariate analyses and descriptive statistics.

10.4.3 Stage three research limitations

Content analysis is a very transparent research method (Bryman 2008). It is an objective method of analysis. It can allow a certain amount of longitudinal analysis with relative ease (Beharrell 1993; Miller and Reilly 1995; Warde 1997). It is also a highly flexible method which can apply to a wide variety of information.

Despite the advantages mentioned above, there are limitations. Coding used in the analysis depends on the researcher's interpretation (Beardsworth 1980) and it is difficult to ascertain the answers to ‘why?’ where the data is purely based on what is presented and available in the media.

For the content analysis, the annual reports reviewed were limited to 35 government link companies in Malaysia which were listed in Bursa Malaysia as of 31 of December 2008. Therefore, due to the limited number of companies, the results may have limited generalisability. However, these companies were representative of government owned enterprises in Malaysia and the results may apply to other government owned companies in developing countries. Data gathered from this stage were analysed using only descriptive statistics, comparative analysis, simultaneous multiple regressions, correlation analysis, model evaluation using R square and independent variables evaluation using beta values.

The study adopted a mixed methods research approach in order to answer the entire research questions outline. A complete answer can be achieved by including both quantitative and qualitative methods (Bryman 2008). Gaps left by one method can be filled by another.

10.5 Suggestions for Future Research

This study adopted a mixed research approach which includes both quantitative and qualitative methods in developing a corporate integrity assessment instrument using corporate governance indicators in the Malaysian government link companies. More research needs to be conducted in this area since relatively little has been done by researchers in the assessment of corporate integrity. Specifically, the following suggestions for future research are provided:

i. The study should be replicated by expanding the framework used in this study and testing more aspects that related to integrity which were not covered in the corporate governance code. By doing so, it can provide a broader understanding of such issues.

ii. The sample of the study should be expanded. This could be replicated for other companies listed in the share market to determine whether similar results obtained from those companies.

iii. Other studies that examine corporations from other countries, particularly developing countries (Thailand, Indonesia and Korea) would be valuable.

10.6 Concluding Statement

This chapter concludes the main findings of the thesis. This thesis adds to the growing body of international literature where it contributes to Agency theory by proposing a new auditing model which integrates the behavioural implications of the human beings involved in the production and management process and introduced the integrity concept in corporate governance research. From a practical perspective, the present study provides feedback to the Malaysian corporate governance regulators and policy makers to assist them in developing policies that support and improve the Malaysian disclosure framework. The empirical results also address the effectiveness of the Malaysian Code on Corporate Governance in ensuring shareholders and the public can assess and determine the standards of corporate governance in listed companies. In addition to that, the results would also contribute to the development of the first national integrity assessment instrument which would complement the NIP. Finally, it is hoped that the study has provided useful information to the Malaysian regulators and policy maker specifically, and to the general public, in addressing the importance of accurate and reliable corporate governance reporting practice which will reflect company integrity value that hope to sustain economic prosperity.

The study revealed that boards of directors play an important role in company corporate governance practices. In realising the importance of company boards of directors, in 2007 the Malaysian government revised the Malaysian Code on Corporate Governance and issued the revised Code (Finance Committee on Corporate Governance 2007), where the key amendments to the Code aimed at strengthening the boards of directors and audit committees, and ensuring that the board of directors and audit committees discharged their roles and responsibilities effectively. The importance of improving board effectiveness from not just 'conforming' to also 'performing' was rightly stated by the Cadbury Report as:

> "*The country's economy depends on the drive and efficiency of the companies. Thus effectiveness with which their boards discharge their responsibilities determines the country's competitive position"*

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Centre for International Corporate Governance Research

Mapping Corporate Integrity Practices in Malaysia's Listed Companies

Interview Schedule

Instructions
Interviewees will be provided with the information sheets and the consent form required by the Ethics Committee of Victoria University, Melbourne Australia.

Interview Date ______________________________

Company/Organization ______________________________

Respondent Position ______________________________

Respondent Name ______________________________

Interviewed By ______________________________

Corporate governance practices in Malaysian GLCs

1. Are there any issues with corporate governance reporting in Malaysia? (**Yes / No**)
   What are the issues with regards to corporate governance reporting in Malaysia? (**Probe: Provide example)**

2. What actual corporate governance practices are in place in your organization? Would you think corporate governance practice go beyond the information's that are published in corporate annual reports? (**Yes / No**) (**Probe: If yes, please provide example)**

3. How accurate are reports of corporate governance? (**Very accurate / accurate / inaccurate**)
   What issues are poorly reported? (**Probe: Provide example)**
   Can it be solved through greater disclosure? (**Yes / No**)

4. Do you think that corporate governance reporting (disclosure) can be a reliable indicator of the quality / integrity of company management? (**Yes / No**) What is your opinion regarding this matter? (**Probe: If yes how)**
   Do you think that corporate governance adds to integrity in business?
   Does it help in restoring the public faith in business integrity? (**Yes / No**)
   Does it help your business's reputation with consumers? (**Yes / No**)

5. Do you think external auditing of corporate governance reporting will disclose the integrity practices in a corporation? (**Probe: Would you like to see this in your company?**)

6. Are there any other issues in regard to corporate integrity which are not being addressed by corporate governance? (**Yes / No**) (**Probe: If yes, please state**)

Concept and understanding of corporate integrity

7. Define integrity?
   What does the word integrity means in business context?

8. Do you think business leaders in Malaysia think that integrity is important? (**Yes / No**) Why?
   Is corporate integrity is an important issue for listed companies? (**Yes / No**)
   Of the top 10 issues that are important to your company, where would you place corporate integrity?
   How important do you think integrity is to other companies in your industry? (**Very important / important / neither important or unimportant / very unimportant**)

9. Does your company currently have any “integrity system” in place?
   Does your company have a code of ethics/conduct? (**Yes / No**)
   Do you collect data about your company ethics? (**Yes / No**)
   Do you have a whistle blower policy? (**Yes / No**)
   To whom does the whistle blower report to?

10. What are the 5 major issues/challenges faced by your company in maintaining integrity?
    What are the factors/reasons that contribute to the issues/challenges mentioned earlier?
    Are there any other suggestions on how to instill integrity value in a corporation?

THANK YOU FOR YOUR CO-OPERATION

LIST OF GLCs as at 30 June 2009 **Appendix 2**

NO.	GOVERNMENT – LINKED COMPANIES
1	Affin Holdings Bhd
2	Astral Supreme Bhd
3	BIMB Holdings Bhd
4	Boustead Holdings Bhd
5	Bumiputra Commerce Holding Bhd
6	CCM Duopharma Biotech Bhd
7	Chemical Company of Malaysia Bhd
8	Faber Group Bhd
9	Lityan Holdings Bhd
10	Malayan Banking Bhd
11	Malaysia Airports Holdings Bhd
12	Malaysia Building Society Bhd
13	Malaysia International Shipping Corp Bhd
14	Malaysian Airline System Bhd
15	Malaysian Resources Corp Bhd
16	MNRB Holdings Bhd
17	NCB Holdings Bhd
18	Petronas Dagangan Bhd
19	Petronas Gas Bhd
20	Pharmaniaga Bhd
21	PLUS Expressways Bhd
22	POS Malaysia & Services Holdings Bhd
23	Proton Holdings Bhd
24	Sime Darby Bhd
25	Syarikat Takaful Malaysia Bhd
26	Telekom Malaysia Bhd
27	Tenaga Nasional Bhd
28	TH Plantations Bhd
29	Time dotcom Bhd
30	Time Engineering Bhd
31	UAC Bhd
32	UEM World Bhd
33	UMW Holdings Bhd
34	VADS Bhd
35	MALAYSIA SMELTING CORPORATION

Non response bias – DIRECTORS **Appendix 3**

		Levene's Test for Equality of Variances					
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference
Clear understanding of role & responsibilities	Equal variances assumed	.148	.701	-.119	181	.906	-.00861
	Equal variances not assumed			-.128	117.974	.899	-.00861
Clear understanding of the separation of responsibilities between chairman & CEO	Equal variances assumed	.302	.583	.338	181	.736	.02369
	Equal variances not assumed			.338	99.604	.736	.02369
Chairman and CEO are independent of each other	Equal variances assumed	13.297	.000	-1.726	181	.086	-.11025
	Equal variances not assumed			-2.319	180.978	.021	-.11025
Board has competencies in accounting & finance	Equal variances assumed	1.145	.286	-.457	181	.648	-.03531
	Equal variances not assumed			-.477	109.598	.635	-.03531

Board has competencies in business & management experience	Equal variances assumed	.883	.349	.638	181	.524	.04953
	Equal variances not assumed			.636	98.633	.527	.04953
Board has competencies in industry knowledge	Equal variances assumed	.039	.843	.273	181	.785	.02283
	Equal variances not assumed			.278	103.870	.781	.02283
Board has competencies in stratergic planning experience	Equal variances assumed	1.334	.250	.790	181	.430	.07149
	Equal variances not assumed			.818	107.717	.415	.07149
Board has competencies in customer based experience/knowledge	Equal variances assumed	.827	.364	.428	181	.669	.04220
	Equal variances not assumed			.445	108.879	.657	.04220
Board are aware & informed about training program availabe to them	Equal variances assumed	4.948	.027	1.542	181	.125	.13135
	Equal variances not assumed			1.469	89.765	.145	.13135
Newly appointed board are provided	Equal variances assumed	.301	.584	.577	181	.565	.12274

with an orientation & education programme	Equal variances not assumed			.571	97.037	.570	.12274
Board have a clear understanding of the company vision, mission and stratergic goals	Equal variances assumed	8.496	.004	-1.426	181	.156	-.09819
	Equal variances not assumed			-1.655	142.478	.100	-.09819
Activities of the company agree with the vision, mission and strategic goals	Equal variances assumed	.006	.940	.146	181	.884	.01120
	Equal variances not assumed			.152	108.317	.880	.01120
Board regularly reviews the company strategic goals	Equal variances assumed	.546	.461	-.008	181	.994	-.00086
	Equal variances not assumed			-.008	113.500	.993	-.00086
Company organizational goals clearly describe the core business activities	Equal variances assumed	2.446	.120	.701	181	.484	.05297
	Equal variances not assumed			.649	84.786	.518	.05297
Board approved the KPI of the company	Equal variances assumed	1.316	.253	.538	181	.591	.02885
	Equal variances not assumed			.485	80.766	.629	.02885

More than 1/3 of the board are independent which encourages effective decision making	Equal variances assumed	4.973	.027	1.121	181	.264	.07967
	Equal variances not assumed			.956	73.533	.342	.07967
Company reviewed the size of the board and ensure it is appropriate	Equal variances assumed	1.853	.175	.883	181	.378	.07709
	Equal variances not assumed			.854	92.558	.395	.07709
Board has minority shareholder representation	Equal variances assumed	.443	.507	-.402	181	.688	-.06718
	Equal variances not assumed			-.422	111.202	.674	-.06718
The number of Non-Executive participation on the board encourages effective decision	Equal variances assumed	1.335	.250	.721	181	.472	.06331
	Equal variances not assumed			.680	88.134	.498	.06331
The remuneration committee sets appropriate remuneration for the CEO	Equal variances assumed	1.179	.279	-.491	181	.624	-.05771
	Equal variances not assumed			-.558	135.306	.578	-.05771
The remuneration committee sets	Equal variances assumed	1.473	.226	-.733	181	.465	-.09690

appropriate remuneration for the board members	Equal variances not assumed			-.852	143.141	.396	-.09690
The nomination committee actively finds and nominates new directors when needed	Equal variances assumed	2.371	.125	.056	181	.955	.00775
	Equal variances not assumed			.062	127.329	.950	.00775
The nomination committtee considered the following criteria as director; caliber, credibility	Equal variances assumed	.000	.993	.509	181	.612	.04910
	Equal variances not assumed			.521	104.757	.604	.04910
The company procedures for the re-election and re appointment are clear, formal & transparent	Equal variances assumed	1.501	.222	.427	181	.670	.03962
	Equal variances not assumed			.458	117.014	.648	.03962
All board members are evaluated at regular intervals	Equal variances assumed	.311	.578	-.456	181	.649	-.06934
	Equal variances not assumed			-.474	108.944	.636	-.06934

Procedures for elction and appointment of the board members are clear, formal and transparent	Equal variances assumed	1.679	.197	-.155	181	.877	-.01421
	Equal variances not assumed			-.167	118.877	.867	-.01421
The nomination committee documents all assessments and evaluations carried out in discharge of its function	Equal variances assumed	.782	.378	-.420	181	.675	-.05082
	Equal variances not assumed			-.450	116.508	.653	-.05082
Company procedures for the succession planning for Board is clear, formal and transparent	Equal variances assumed	.003	.953	-.227	181	.821	-.03015
	Equal variances not assumed			-.228	100.955	.820	-.03015
Company procedures for the succession planning for Mgt team is clear, formal and transparent	Equal variances assumed	.126	.723	-.137	181	.891	-.01680
	Equal variances not assumed			-.136	98.434	.892	-.01680

Company board committee has a clear understanding of their authority and report to the board	Equal variances assumed	3.512	.063	1.127	181	.261	.08226
	Equal variances not assumed			1.101	94.399	.274	.08226
Board is supplied with timely and quality information from company to enable them to discharge their duties	Equal variances assumed	.487	.486	.606	181	.545	.06158
	Equal variances not assumed			.603	98.264	.548	.06158
Board receives timely information and detailed agenda for board of directors meetings	Equal variances assumed	1.629	.203	.653	181	.514	.05254
	Equal variances not assumed			.632	92.590	.529	.05254
Board has regular meetings with due notice of issues to be discussed without management present	Equal variances assumed	.007	.936	.149	181	.882	.02239
	Equal variances not assumed			.146	94.938	.884	.02239

Board has a formal schedule of matters specifically reserved for its decisions	Equal variances assumed	.377	.540	-.418	181	.676	-.04264
	Equal variances not assumed			-.427	104.122	.670	-.04264
Board has capacity to have independent access to professional advisors	Equal variances assumed	.300	.584	.486	181	.628	.04048
	Equal variances not assumed			.494	102.998	.623	.04048
Board has separate and independent access to company secretary services	Equal variances assumed	10.356	.002	1.658	181	.099	.17786
	Equal variances not assumed			1.331	67.273	.188	.17786

Non response bias – DIRECTORS' REMUNERATION

		Levene's Test for Equality of Variances					
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference
Level of remuneration is sufficient to attract and retain the directors needed to run the company successfully	Equal variances assumed	1.380	.242	.758	181	.449	.10078
	Equal variances not assumed			.782	106.588	.436	.10078
The non-executives director's	Equal variances assumed	.274	.602	.909	181	.364	.19983

remuneration is based on experience, contribution & responsibilities	Equal variances not assumed			.890	95.046	.376	.19983
The executive director's remuneration is based on individual performance	Equal variances assumed	.677	.412	-1.206	181	.229	-.17140
	Equal variances not assumed			-1.317	122.283	.190	-.17140
Company has a formal procedure for developing and fixing the remuneration packages	Equal variances assumed	1.251	.265	-.656	181	.513	-.08053
	Equal variances not assumed			-.730	128.431	.466	-.08053
Company has a transparent procedure for developing and fixing the remuneration packages	Equal variances assumed	2.057	.153	-.948	181	.344	-.13781
	Equal variances not assumed			-1.010	115.211	.315	-.13781
The formation and role of the remuneration committee are transparent	Equal variances assumed	.463	.497	.193	181	.847	.01938
	Equal variances not assumed			.201	109.818	.841	.01938

Company takes into account pay and employment conditions within the industry	Equal variances assumed	1.768	.185	.052	181	.959	.00517
	Equal variances not assumed			.056	118.997	.956	.00517
Company uses long term incentives for rewarding thair executive directors	Equal variances assumed	.767	.382	-.198	181	.843	-.02929
	Equal variances not assumed			-.207	109.753	.837	-.02929

Non response bias – SHAREHOLDERS

		Levene's Test for Equality of Variances					
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference
Company maintained regular and effective communication with shareholders through websites	Equal variances assumed	.192	.662	-.755	181	.451	-.09776
	Equal variances not assumed			-.799	113.278	.426	-.09776
Company maintained regular and effective	Equal variances assumed	1.319	.252	-.565	181	.573	-.02670

communication with shareholders through annual reports	Equal variances not assumed			-.597	112.865	.552	-.02670
Company maintained regular and effective communication with shareholders through announcements	Equal variances assumed	1.562	.213	.637	181	.525	.03790
	Equal variances not assumed			.613	91.335	.542	.03790
The AGM is used by the company to communicate with their private investors	Equal variances assumed	9.298	.003	-1.678	181	.095	-.15719
	Equal variances not assumed			-2.029	156.881	.044	-.15719
The company encourages private investors to participate in the AGM	Equal variances assumed	.696	.405	-.939	181	.349	-.09302
	Equal variances not assumed			-.997	114.003	.321	-.09302
The company website has an investor relations section which enables shareholders to direct questions to the company	Equal variances assumed	.387	.535	.608	181	.544	.08570
	Equal variances not assumed			.638	110.793	.525	.08570
The company acquires shareholders approval for major asset acquisition/disposal	Equal variances assumed	8.319	.004	-1.651	181	.100	-.18691
	Equal variances not assumed			-2.054	166.255	.042	-.18691

The company clearly defines shareholders' proxies, rights and privileges	Equal variances assumed	4.700	.031	-1.032	181	.304	-.06891
	Equal variances not assumed			-1.113	118.892	.268	-.06891
The company communicates the shareholders' proxies, rights & privileges to the shareholder	Equal variances assumed	3.035	.083	-1.022	181	.308	-.10379
	Equal variances not assumed			-1.071	110.572	.287	-.10379
The company acquires shareholders approval for related party transaction	Equal variances assumed	7.125	.008	-1.568	181	.119	-.26916
	Equal variances not assumed			-1.850	148.026	.066	-.26916
The company holds the AGM at least every 15 months	Equal variances assumed	1.435	.233	-.582	181	.562	-.03445
	Equal variances not assumed			-.684	147.268	.495	-.03445
The company has clearly defined procedureson voting at AGM	Equal variances assumed	2.311	.130	-.741	181	.460	-.03919
	Equal variances not assumed			-.787	114.541	.433	-.03919
The company proxies are allowed to attend, speak & vote at AGM	Equal variances assumed	1.281	.259	-.619	181	.537	-.03618
	Equal variances not assumed			-.608	95.561	.545	-.03618

3/4 or 95% must present at the AGM to pass special resolution	Equal variances assumed	2.209	.139	-.982	181	.328	-.23514
	Equal variances not assumed			-1.036	112.704	.302	-.23514
The company has sufficient and clearly explained information on voting procedures at EGM	Equal variances assumed	.164	.686	.334	181	.739	.02627
	Equal variances not assumed			.335	100.331	.738	.02627
The company has a clearly defined procedures on shareholders accessibility to company information	Equal variances assumed	1.738	.189	-.936	181	.350	-.15891
	Equal variances not assumed			-1.065	135.412	.289	-.15891
The company has a clear and transparent dividend policy	Equal variances assumed	.184	.669	-.883	181	.378	-.17313
	Equal variances not assumed			-.934	113.306	.352	-.17313
The company provides sufficient information on the dividend policy to the shareholders	Equal variances assumed	.043	.835	-.719	181	.473	-.13824
	Equal variances not assumed			-.748	108.928	.456	-.13824

Non response bias – ACCOUNTABILITY & AUDIT

		Levene's Test for Equality of Variances					
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference
The board has a clear understanding their responsibilities to safeguard shareholders' investment & company aasets	Equal variances assumed	.300	.585	-.244	181	.807	-.01637
	Equal variances not assumed			-.252	106.415	.802	-.01637
Board makes an assessment on the internal control status and the control measure takes	Equal variances assumed	.024	.876	-.037	181	.971	-.00258
	Equal variances not assumed			-.038	103.304	.970	-.00258
Board has a clear	Equal variances assumed	.963	.328	.569	181	.570	.03919

understanding of their responsibilities in maintaining a sound system of company internal control	Equal variances not assumed			.564	97.390	.574	.03919
Company has an annual review on the material internal control; financial; operational; compliance control & risk	Equal variances assumed	.024	.876	-.037	181	.971	-.00258
	Equal variances not assumed			-.038	103.304	.970	-.00258
Board receives timely and quality information on the financial performance of the company	Equal variances assumed	.044	.834	-.104	181	.917	-.00732
	Equal variances not assumed			-.105	99.869	.917	-.00732
Board receives timely and quality information on the prospects and opportunities of the company	Equal variances assumed	1.450	.230	-.226	181	.821	-.02067
	Equal variances not assumed			-.241	115.464	.810	-.02067

Board receives timely and quality information on the qualitative performance of the company	Equal variances assumed	1.290	.257	.440	181	.660	.04780
	Equal variances not assumed			.457	108.260	.648	.04780
Board receives timely information about the third party related transactions	Equal variances assumed	1.453	.230	-.685	181	.494	-.06848
	Equal variances not assumed			-.772	132.199	.442	-.06848
The Audit committee is composed of fully non-executives directors	Equal variances assumed	.749	.388	-.539	181	.590	-.04737
	Equal variances not assumed			-.554	105.779	.581	-.04737
The company has a clear written term of reference for the ausit committee	Equal variances assumed	5.464	.021	-1.124	181	.263	-.05297
	Equal variances not assumed			-1.268	132.778	.207	-.05297
The Audit committee members are financially literate	Equal variances assumed	.000	.990	.006	181	.995	.00043
	Equal variances not assumed			.006	98.898	.995	.00043
The company has	Equal variances assumed	.419	.518	-.321	181	.749	-.01593

transparent relationship with the external auditor	Equal variances not assumed			-.329	105.645	.743	-.01593
Audit committee assess adequacy of the internal audit process annually	Equal variances assumed	1.109	.294	-.517	181	.606	-.02842
	Equal variances not assumed			-.537	108.411	.592	-.02842
Frequent meetings are held between the Audit committee and the external auditor without executive board members present	Equal variances assumed	.649	.421	.560	181	.576	.05426
	Equal variances not assumed			.568	102.697	.571	.05426
There is a continuous engagement between the chairman of the audit committee and the external auditors	Equal variances assumed	.651	.421	-1.024	181	.307	-.09819
	Equal variances not assumed			-1.044	103.889	.299	-.09819
The head of	Equal variances assumed	.639	.425	-.348	181	.728	-.03015

internal audit reports directly to the audit committtee	Equal variances not assumed			-.400	139.135	.690	-.03015
The board releases the audited report to the public within 120 day / 4 months of the balance sheet day	Equal variances assumed	.059	.808	-.140	181	.889	-.01378
	Equal variances not assumed			-.141	100.496	.888	-.01378

Non response bias – BUSINESS ETHICS & RESPONSIBILITY

		Levene's Test for Equality of Variances					
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference
The company established a code of ethics	Equal variances assumed	1.097	.296	-.450	181	.654	-.04996
	Equal variances not assumed			-.471	110.880	.638	-.04996
The company closely monitored the implementation of the code of ethics	Equal variances assumed	.435	.510	-.004	181	.997	-.00043
	Equal variances not assumed			-.004	110.071	.997	-.00043

The company has a formal and transparent complaint procedures	Equal variances assumed	.184	.668	-.085	181	.933	-.01120
	Equal variances not assumed			-.087	105.091	.931	-.01120
The company has a detailed and clear staff behavior expectation	Equal variances assumed	1.137	.288	.560	181	.576	.06761
	Equal variances not assumed			.588	110.995	.558	.06761
The company has a formal and transparent procedure for staff deciplinary matters	Equal variances assumed	.016	.899	1.202	181	.231	.11499
	Equal variances not assumed			1.195	98.212	.235	.11499
A detail explaination on the VAS enhances the staff ethical values and responsibilities	Equal variances assumed	.063	.803	-.875	181	.382	-.15030
	Equal variances not assumed			-.908	108.011	.366	-.15030
There is a continuous effort in enhancing quality related activities in the organization	Equal variances assumed	.965	.327	-.120	181	.905	-.01206
	Equal variances not assumed			-.130	121.137	.897	-.01206

Non response bias – INTELLECTUAL CAPITAL

		Levene's Test for Equality of Variances					
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference
Board includesintellectual capital in the company strategic planning agenda	Equal variances assumed	.426	.515	.776	181	.439	.10336
	Equal variances not assumed			.820	113.107	.414	.10336
The board approves the allocation of a large amount of expenditure to the employees/staff training and development	Equal variances assumed	2.785	.097	-.178	181	.859	-.02196
	Equal variances not assumed			-.197	127.644	.844	-.02196
The board approves the company investment in IT related assets	Equal variances assumed	.006	.939	.486	181	.627	.04953
	Equal variances not assumed			.481	97.353	.631	.04953
The board approves the company activities which promote knowledge workers	Equal variances assumed	2.580	.110	-.212	181	.832	-.02412
	Equal variances not assumed			-.226	114.790	.822	-.02412

The company has a formal and transparent staff promotional policy	Equal variances assumed	.543	.462	.350	181	.726	.03488
	Equal variances not assumed			.334	89.722	.739	.03488
The company has detailed and formal staff health/safety measures	Equal variances assumed	1.527	.218	.918	181	.360	.09087
	Equal variances not assumed			.932	102.913	.354	.09087
The company has established procedure in identifying the present and potential financial value of intellectual Capital	Equal variances assumed	3.994	.047	-.616	181	.539	-.09216
	Equal variances not assumed			-.662	117.614	.510	-.09216
The company established procedures identifying any possible threats to present intelectual capital efficiency	Equal variances assumed	.480	.489	.025	181	.980	.00345
	Equal variances not assumed			.026	105.651	.979	.00345
The company has established procedures for identifying renewing and developing intellectual capital	Equal variances assumed	.011	.917	.334	181	.739	.04134
	Equal variances not assumed			.339	102.948	.735	.04134

Non response bias - DISCLOSURE

		Levene's Test for Equality of Variances					
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference
The company discloses the issues of lead control in the company	Equal variances assumed	.943	.333	-1.119	181	.265	-.15978
	Equal variances not assumed			-1.315	146.840	.191	-.15978
The company provides full disclosure of the independent director's responsibility and relationship	Equal variances assumed	.333	.564	-.039	181	.969	-.00388
	Equal variances not assumed			-.040	109.865	.968	-.00388
The company discloses detail &	Equal variances assumed	.487	.486	-.157	181	.875	-.01464

sufficient information about independent director's caliber, credibility, skill and experience	Equal variances not assumed			-.152	92.825	.879	-.01464
Sufficient and transparent information on the formation and role of remuneration committee disclosed in the annual report	Equal variances assumed	1.047	.308	-.698	181	.486	-.08656
	Equal variances not assumed			-.727	109.265	.469	-.08656
Company disclose setail and sufficient information of remuneration and other benefit received by individual directors	Equal variances assumed	.550	.459	.392	181	.696	.08269
	Equal variances not assumed			.376	90.967	.708	.08269
Company discloses detail and sufficient	Equal variances assumed	.042	.837	.097	181	.923	.02110

information of additional contribution received by non-executive directors	Equal variances not assumed			.094	93.420	.925	.02110
Company discloses detail and sufficient information about special business in the AGM notice & full explaination of the effects	Equal variances assumed	.934	.335	.636	181	.525	.05125
	Equal variances not assumed			.629	96.792	.531	.05125
Sufficient information on board understanding to safeguard shareholder investment and co asset is being disclose	Equal variances assumed	2.253	.135	-.472	181	.637	-.04393
	Equal variances not assumed			-.509	118.176	.612	-.04393
Sufficient information on how	Equal variances assumed	2.936	.088	-.357	181	.722	-.03790

board makes an assessment on internal control status and measure	Equal variances not assumed			-.384	117.779	.702	-.03790
Sufficient information on board understanding their responsibilities in maintaining sound system of company internal control	Equal variances assumed	.850	.358	-.055	181	.956	-.00517
	Equal variances not assumed			-.057	110.031	.954	-.00517
Sufficient information on the company relationship with external auditor	Equal variances assumed	1.747	.188	-.095	181	.925	-.01077
	Equal variances not assumed			-.099	110.158	.921	-.01077
Sufficient information on how Audit committee assess the adequacy of the internal audit annually by reviewing scope, result cost	Equal variances assumed	.948	.331	.636	181	.525	.06072
	Equal variances not assumed			.652	105.230	.516	.06072

Sufficient information about the third party related transactions	Equal variances assumed	1.082	.300	-.805	181	.422	-.08398
	Equal variances not assumed			-.894	127.592	.373	-.08398
Board responsible to ensure the company releases the audited report to the public within 120 days/ 4 mths of the balance sheet day	Equal variances assumed	.284	.595	.337	181	.737	.03359
	Equal variances not assumed			.331	95.644	.742	.03359

SURVEY

Appendix 4

CORPORATE INTEGRITY ASSESSMENT SCORECARD

OVERVIEW

This survey investigates corporate governance practices among the Government Link Companies (GLCs) listed in the Kuala Lumpur stock exchange. A Corporate Integrity Assessment Scorecard will be used to measure and investigate the relationships between corporate governance and corporate integrity. This is the first national study of its kind that validates corporate governance reporting and uses corporate governance indicators in modeling and assessing corporate integrity.

DEFINITIONS

Corporate integrity: Corporate Integrity means good corporate governance practice.

Corporate Governance Practices: Corporate governance practices are the principles and best practices requirements of the Malaysian Code on Corporate Governance (MCCG); and other world best practices.

Corporate Governance Reporting: Corporate governance reporting is the information provided in the annual report of the company or in any other publicly available information.

INSTRUCTIONS FOR COMPLETING THIS SURVEY

1. Please answer all the survey questions to the best of your ability.
2. We welcome any additional comments in the space provided at the end of the survey.
3. Please place the completed survey in the enclosed reply-paid envelope and return it at your earliest convenience.

Thank you for supporting this research project

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A: DIRECTORS

The following statements relate to the role of the Board of Directors (BOD). It covers five important aspects namely Board Leadership & Control, Board Balance, Board's Right to Information, Appointment of Directors and Board Re-election.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
a. The board has a clear understanding of their role and responsibilities towards the company.	5	4	3	2	1	0
b. The board has a clear understanding of the separation of responsibilities between the Chairman and Chief Executive Officer (CEO).	5	4	3	2	1	0
c. The Chairman and Chief Executive Officer (CEO) are independent of each other.	5	4	3	2	1	0
d. The board has competencies in accounting or finance.	5	4	3	2	1	0
e. The board has competencies in business or management experience.	5	4	3	2	1	0
f. The board has competencies in industry knowledge.	5	4	3	2	1	0
g. The board has competencies in strategic planning experience.	5	4	3	2	1	0
h. The board has competencies in customer based experience or knowledge.	5	4	3	2	1	0
i. The board members are aware and informed about the training program available to them.	5	4	3	2	1	0
j. A newly appointed board members are provided with an orientation and education programme.	5	4	3	2	1	0
k. The board members have a clear understanding of the company vision, mission and strategic goals.	5	4	3	2	1	0
l. The activities of the company agree with the vision, mission and strategic goals.	5	4	3	2	1	0

m. The board regularly reviews the company strategic goals.	5	4	3	2	1	0
n. The company organizational goals clearly describe the core business activities.	5	4	3	2	1	0
o. The board approved the Key Performance Indicators (KPI) of the company.	5	4	3	2	1	0
p. More than one third (1/3) of the board members are independent which encourages the effective decision making.	5	4	3	2	1	0
q. The company reviewed the size of the Board and ensures that it is appropriate.	5	4	3	2	1	0
r. The board has minority shareholder representation.	5	4	3	2	1	0
s. The number of Non-Executive participation on the board encourages effective decision making.	5	4	3	2	1	0
t. The Remuneration committee sets appropriate remuneration for the **CEO**.	5	4	3	2	1	0
u. The Remuneration committee sets appropriate remuneration for the **board members**.	5	4	3	2	1	0
v. The Nomination committee actively finds and nominates new directors when needed.	5	4	3	2	1	0
w. The Nomination committee considered the following criteria as director; persons with caliber, credibility, skill, knowledge, expertise, professionalism, experience and integrity.	5	4	3	2	1	0
x. The company procedures for the re-election and appointment of the board are clear, formal and transparent.	5	4	3	2	1	0
y. All board members are evaluated at regular intervals.	5	4	3	2	1	0
z. Procedures for election and reelection of the board members are clear, formal and transparent.	5	4	3	2	1	0
a1. The Nomination committee documents all assessments and evaluations carried out in discharge of its function.	5	4	3	2	1	0
b1. The company procedures for the succession planning, including appointment, training, fixing the compensation of replacing **board members** is clear, formal and transparent.	5	4	3	2	1	0

c1. The company procedures for the succession planning, including appointment, training, fixing the compensation of replacing **management team** is clear, formal and transparent.	5	4	3	2	1	0
d1. The company board committee has clear understanding of their authority and report to the board.	5	4	3	2	1	0
e1. The board is supplied with timely and quality information from the company to enable them to discharge their duties.	5	4	3	2	1	0
f1. The board receives timely information and detailed agenda for the Board of Directors meetings.	5	4	3	2	1	0
g1. The board has regular meetings with due notice of issues to be discussed without management present.	5	4	3	2	1	0
h1. The board has a formal schedule of matters specifically reserved for its decisions.	5	4	3	2	1	0
i1. The board has capacity to have independent access to professional advisors.	5	4	3	2	1	0
j1. The board has separate and independent access to company secretary services.	5	4	3	2	1	0

B: DIRECTORS' REMUNERATION

The following statements relates to the Directors' Remuneration. It includes the Level & Make-up of Remuneration and Procedure.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
a. The level of remuneration is sufficient to attract and retain the directors needed to run the company successfully.	5	4	3	2	1	0
b. The **non-executive directors'** remuneration is based on experience, contribution and responsibilities.	5	4	3	2	1	0
c. The **executive directors'** remuneration is based on individual performance.	5	4	3	2	1	0
d. The company has a **formal procedure** for developing and fixing the remuneration packages.	5	4	3	2	1	0
e. The company has a **transparent procedure** for developing and fixing the remuneration packages.	5	4	3	2	1	0

f. The formation and role of the Remuneration committee are transparent.	5	4	3	2	1	0
g. The company takes into account pay and employment conditions within the industry.	5	4	3	2	1	0
h. The company uses long-term incentives for rewarding their executive directors.	5	4	3	2	1	0

C: SHAREHOLDERS

The following statement looks at aspects of communication that exists between companies and investors. It reflects the company relationship with their investors.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
a. The company maintained regular and effective communication with shareholders through **websites**.	5	4	3	2	1	0
b. The company maintained regular and effective communication with shareholders through **annual reports**.	5	4	3	2	1	0
c. The company maintained regular and effective communication with shareholders through **announcements**.	5	4	3	2	1	0
d. The AGM is used by the company to communicate with their private investors.	5	4	3	2	1	0
e. The company encourages private investors to participate in the AGM.	5	4	3	2	1	0
f. The company website has an investor relations section which enables shareholders to direct questions to the company.	5	4	3	2	1	0
g. The company acquires Shareholders approval for major asset acquisition/disposal.	5	4	3	2	1	0
h. The company clearly defines the shareholders' proxies, shareholders rights & privileges.	5	4	3	2	1	0
i. The company communicates the shareholders' proxies, shareholders rights & privileges to the shareholder.	5	4	3	2	1	0

j. The company acquires shareholders approval for related-party transactions.	5	4	3	2	1	0
k. The company holds the AGM at least every 15 months (Sec 143 Co Act 1965).	5	4	3	2	1	0
l. The company has clearly defined procedures on voting at AGM.	5	4	3	2	1	0
m. The company proxies are allowed to attend, speak & vote at AGM.	5	4	3	2	1	0
n. ¾ or 95% must be present at the AGM to pass special resolution.	5	4	3	2	1	0
o. The company has sufficient and clearly explained information on voting procedures at EGM.	5	4	3	2	1	0
p. The company has clearly defined procedures on shareholders accessibility to company's information.	5	4	3	2	1	0
q. The company has a clear and transparent dividend policy.	5	4	3	2	1	0
r. The company provides sufficient information on the dividend policy to the shareholders.	5	4	3	2	1	0

D: ACCOUNTABILITY AND AUDIT

The following statements relate to the company Board of Directors (BOD) responsibility and accountability towards the firm shareholder. It includes the financial reporting, internal control and relationship with auditors.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
a. The board has a clear understanding of their responsibilities to safeguard shareholders' investment and the company's assets.	5	4	3	2	1	0
b. The board makes an assessment on the internal control status and the control measure takes.	5	4	3	2	1	0
c. The board has a clear understanding of their responsibilities in maintaining a sound system of company internal control.	5	4	3	2	1	0
d. The company has an annual review on the material internal control; financial; operational; compliance control and risk	5	4	3	2	1	0

management by the internal or external auditors.						
e. The board receives timely and quality information on the financial performance of the company.	5	4	3	2	1	0
f. The board receives timely and quality information on the prospects and opportunities of the company.	5	4	3	2	1	0
g. The board receives timely and quality information on the qualitative performance of the company. (eg: Customer satisfaction & service quality, environmental issues, market share and market reaction)	5	4	3	2	1	0
h. The board receives timely information about the third party related transactions.	5	4	3	2	1	0
i. The Audit committee is composed of fully non-executives directors.	5	4	3	2	1	0
j. The company has a clear written term of reference for the audit committee.	5	4	3	2	1	0
k. The Audit committee members are financially literate.	5	4	3	2	1	0
l. The company has transparent relationship with the external auditor.	5	4	3	2	1	0
m. The company Audit committee assesses the adequacy of the internal audit annually by reviewing the scope and results of the audit, cost effectiveness of the audit, independence and objectivity of the auditors.	5	4	3	2	1	0
n. Frequent meetings are held between the Audit committee and the external auditor without the executive board members present.	5	4	3	2	1	0
o. There is continuous engagement between the chairman of the Audit committee and the external auditors.	5	4	3	2	1	0
p. The head of internal audit reports directly to the Audit committee.	5	4	3	2	1	0
q. The board releases the audited report to the public within 120 days / 4 months of the balance sheet day.	5	4	3	2	1	0

E: BUSINESS ETHICS AND RESPONSIBILITY

The following statements relate to the Board of Directors (BOD) responsibility in ensuring that management and employees of the company uphold the highest level of ethical values and responsibilities. As such, the Board must ensure the company has a policy implicating such responsibilities.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
a. The company established a code of ethics.	5	4	3	2	1	0
b. The company is closely monitored the implementation of the code of ethics.	5	4	3	2	1	0
c. The company has a formal and transparent complaint procedure.	5	4	3	2	1	0
d. The company has detailed and clear staff behavior expectations.	5	4	3	2	1	0
e. The company has a formal and transparent procedure for staff disciplinary matters.	5	4	3	2	1	0
f. A detail explanation on the Value-Added Statement (VAS) enhances the staff ethical values and responsibilities.	5	4	3	2	1	0
g. There is continuous effort in enhancing quality-related activities in the organization.	5	4	3	2	1	0

F: INTELLECTUAL CAPITAL

The following statements relate to how the Board of Directors (BOD) recognizes intellectual capital as one of the most important assets in the organization.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Not Applicable
a. The board includes intellectual capital in the company strategic planning agenda.	5	4	3	2	1	0
b. The board approves the allocation of a large amount of expenditure to the employees/staff training and development.	5	4	3	2	1	0

c. The board approves the company investment in IT related assets.	5	4	3	2	1	0
d. The board approves the company activities which promote knowledge workers.	5	4	3	2	1	0
e. The company has a formal and transparent staff promotional policy.	5	4	3	2	1	0
f. The company has detailed and formal staff health/safety measures	5	4	3	2	1	0
g. The company has established procedure in identifying the present and potential financial value of intellectual capital.	5	4	3	2	1	0
h. The company has established procedures identifying any possible threats to present intellectual capital efficiency.	5	4	3	2	1	0
i. The company has established procedures for identifying renewing and developing intellectual capital.	5	4	3	2	1	0

G: DISCLOSURE

The following statements relate to the company Board of Directors (BOD) responsibility and transparency towards the firm shareholder. As a show of responsibility, the BOD must be "transparent" in disclosing pertinent information to the shareholder. Please indicate the extend to which the Board of Directors in your organization responsible in ensuring the management team disclose it to the public.

Please circle a number for each statement to indicate the extent of your agreement.

	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**	**Not Applicable**
a. The company discloses the issue of lead control in the company.	5	4	3	2	1	0
b. The company provides full disclosure of the independent director's responsibility and relationship.	5	4	3	2	1	0
c. The company discloses detail and sufficient information about the independent director's caliber, credibility, skill and experience.	5	4	3	2	1	0
d. Sufficient and transparent information on the formation and role of the Remuneration committee is being disclosed in the annual report.	5	4	3	2	1	0
e. The company discloses detail and sufficient information of						

remuneration and other benefits received (performance related salary, stock options and other long term incentives) by **individual directors** in the annual report.	5	4	3	2	1	0
f. The company discloses detail and sufficient information of additional contributions (such as attendance fees and meeting allowance) received by **non-executive directors** either from the company or subsidiaries in the annual report.	5	4	3	2	1	0
g. The company discloses detail and sufficient information about special business in the AGM notice accompanied by a full explanation of the effects of a proposed resolution in the annual report.	5	4	3	2	1	0
h. Sufficient information on board understanding to safeguard shareholders' investment and the company's assets are being disclosed in the annual report.	5	4	3	2	1	0
i. Sufficient information on how board makes an assessment on the internal control status and the control measure taken is being disclosed in the annual report.	5	4	3	2	1	0
j. Sufficient information on board understanding of their responsibilities in maintaining sound system of company internal control is being disclosed in the annual report.	5	4	3	2	1	0
k. Sufficient information on the company relationship with the external auditor is being disclosed in the annual report.	5	4	3	2	1	0
l. Sufficient information on how Audit committee assesses the adequacy of the internal audit annually by reviewing the scope and results of the audit, cost effectiveness of the audit, independence and objectivity of the auditors is being disclosed the annual report.	5	4	3	2	1	0
m. Sufficient information about the third party related transactions is being disclosed in the annual report.	5	4	3	2	1	0
n. The board is responsible to ensure the company releases the audited report to the public within 120 days / 4 months of the balance sheet day.	5	4	3	2	1	0

PART IX: GENERAL QUESTIONS (DEMOGRAPHY)

Please tick in the appropriate answer.

1. Which gender are you?

- ☐ Male
- ☐ Female

2. Which of the following groups represents you?

☐ 20 – 39 years	☐ 50 – 59 years	☐ 70 – 79 years
☐ 40 – 49 years	☐ 60 – 69 years	☐ More than 80 years

3. What is your education level?

☐ Primary School	☐ Degree	☐ Professional qualification
☐ High School	☐ Master Degree	☐ Doctor of Philosophy

Others (Please specify)____

4. In which industry is your company involved?

☐ Agricultural/ mining/ construction	☐ Retail/ wholesale/ distribution	☐ Telecommunication
☐ Consulting/ professional service	☐ Transportation/ logistics	☐ Manufacturing
☐ Banking/ Finance/ Insurance	☐ Real estate	☐ Hospitality/ travel/ tourism

☐ Education/ research ☐ Media/ entertainment/ publishing ☐ Health care

Others (Please specify)____

5. How long have you held your current position in the company?

☐ Less than 2 years ☐ 6 – 8 years ☐ More than 11 years

☐ 3 – 5 years ☐ 9 – 11 years

6. What is the turnover of the company? ______________________

7. Would like to receive a copy of the summary report of the study?

☐ Yes ☐ No

8. If yes, please fill in the form below or just attach your business card.

Name ______________________________________

Postal Address ______________________________________

____

____

Email ______________________________________

Telephone ______________________________________

Thank you very much for taking the time to complete this questionnaire. Your help in providing this information is greatly appreciated. If there is anything else you would like to tell us about, please do so in the space provided below.

____

____

Thank you very much for taking the time to complete this questionnaire.

Aida Maria Ismail
PhD Candidate
Centre for International Corporate Governance Research
Faculty of Business and Law
Victoria University – Australia
Phone - +613 99191451/ +61433251815
Email aidamaria.ismail@live.vu.edu.au

Professor Anona Armstrong PhD
Director
Centre for International Corporate Governance Research
Faculty of Business and Law
Victoria University – Australia
Phone - +613 9919 1315
Email Anona.Armstrong@vu.edu.au

Information to Participant – Interview **Appendix 5**

Victoria University

PO Box 14428
Melbourne VIC 8001
Australia

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Facsimile:
61 3 9919 1064

Centre for International Corporate Governance Research
City Flinders Campus
300 Flinders Street
Melbourne

INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

You are invited to participate

You are invited to participate in a research project entitled '**Development of a Corporate Integrity Assessment Instrument Using Corporate Governance Indicators in Malaysia**'.

This project is being conducted by a student researcher Ms Aida Maria Ismail as part of a PhD study at Victoria University under the supervision of Professor Anona Armstrong, and Professor Colin Clark from Centre for International Corporate Governance Research in the Faculty of Business and Law, Victoria University, Australia.

Project explanation

The purpose of this study is to focus on the actual practices of corporate governance which will be used as indicators for modelling and assessment of corporate integrity practices among the thirty nine (39) Government Link Companies (GLCs) listed in the Kuala Lumpur stock exchange.

A Corporate Integrity Assessment Scorecard will be developed and used to validate the congruence between corporate governance reporting and practices. The study will close the knowledge gap in terms of identifying the corporate governance indicators that can be used to model, assess corporate integrity and see the relationship with corporate performance. The Corporate Integrity Assessment Scorecard will provide the standard measurable means by which Malaysians and others can gain assurance that a company has integrity. It is also hoped that the efforts will create value that will have a positive demonstration effect on the rest of the corporate sector.

What will I be asked to do?

Construct Validity test

You are invited to participate in a structured interview. The interview session will take about one hour. The purpose is to test the validity of the developed scorecard.

What will I gain from participating?

Your participation will contribute towards the development of a comprehensive framework in measuring corporate integrity practices in Malaysia which takes into account their practicability and suitability to the Malaysian environment. This study is expected to make a contribution to the country and nation by the development of the instrument which measures corporate integrity practices of the thirty nine (39) GLCs listed in the Kuala Lumpur stock exchange, and complement the National Integrity Plan (NIP). Following its introduction in 2004, there is no measurement instrument to measure the results (Ravendran 2006). It is also hope that this effort will help to realize the aspirations of vision 2020, that is "*to establish a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards*" (Badawi 2004, p. vii).

How will the information I give be used?

Your information provided in the survey will be treated confidentially. You will remain anonymous. Data will be aggregated in such a way that you would not be identified.

What are the potential risks of participating in this project?

Minimum risks have been identified from participating in this project. Throughout the exercise, if you feel uncomfortable or require some form of explanation; please feel free to raise the issue with the researcher. As indicated, you are free not to reveal any information that you think is too confidential to your company or to withdraw at any time. However, you will not be identified as the source or author of any statement. Also, statements or comments will not be used in a way which will enable you to be identified.

How will this project be conducted?

A triangulation research approach will be adopted in this project to meet the overall project objectives. A scorecard will be developed to measure and investigate the interaction between corporate governance, corporate integrity and corporate performance. The study involves structured interviews with selected board members and professionals in the area of corporate governance and integrity. They will be followed by a survey to the board members from the thirty nine (39) companies to assess the actual corporate governance practices. They are the CEO, company secretary, the chair and members of the Audit Committee, Remuneration Committee and Nomination Committee. These companies were identified as the research sample since they are part of the Malaysia National Integrity Plan agenda (Putrajaya Committee on GLC High Performance 2006).

Who is conducting the study?

The study is being conducted by Aida Maria Ismail (Phone: 014 9232 900 or email aidamaria.ismail@live.vu.edu.au) under the supervision of Professor Anona Armstrong (Phone: 613 99191315 or email anona.armstrong@vu.edu.au) and Professor Colin Clark (Phone: 613 9919 1565 or email colin.clark@vu.edu.au).

Yours Sincerely,

Aida Maria Ismail

Any queries about your participation in this project may be directed to the Principal Researcher listed above. If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781.

Information to Participant - Survey

Victoria University

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A Corporate Integrity Assessment Scorecard will be developed and used to validate the congruence between corporate governance reporting and practices. The study will close the knowledge gap in terms of identifying the corporate governance indicators that can be used to model, assess corporate integrity and see the relationship with corporate performance. The Corporate Integrity Assessment Scorecard will provide the standard measurable means by which Malaysians and others can gain assurance that a company has integrity. It is also hoped that the efforts will create value that will have a positive demonstration effect on the rest of the corporate sector.

What will I be asked to do?

You are invited to participate in a survey questionnaire. The survey is to assess corporate governance understanding and practices among Board of Directors and senior management staff in your company. The questionnaire provides a checklist of corporate governance indicators. You are, not obliged to disclose anything which you think is confidential to your company.

What will I gain from participating?

Your participation will contribute towards the development of a comprehensive framework in measuring corporate integrity practices in Malaysia which takes into account their practicability and suitability to the Malaysian environment. This study is expected to make a contribution to the country and nation by the development of the instrument which measures corporate integrity practices of the GLCs listed in the

Kuala Lumpur stock exchange, and complement the National Integrity Plan (NIP). Following its introduction in 2004, there is no measurement instrument to measure the results (Ravendran 2006). It is also hope that this effort will help to realize the aspirations of vision 2020, that is "*to establish a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards*" (Badawi 2004, p. vii).

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Your information provided in the survey will be treated confidentially. You will remain anonymous. Data will be aggregated in such a way that you would not be identified.

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Minimum risks have been identified from participating in this project. Throughout the exercise, if you feel uncomfortable or require some form of explanation; please feel free to raise the issue with the researcher. As indicated, you are free not to reveal any information that you think is too confidential to your company or to withdraw at any time. However, you will not be identified as the source or author of any statement. Also, statements or comments will not be used in a way which will enable you to be identified.

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Consent Form - Interview

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Centre for International Corporate Governance Research
City Flinders Campus
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Melbourne

CONSENT FORM FOR PARTICIPANTS INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS:

We would like to invite you to be a part of a study '**Development of a Corporate Integrity Assessment Instrument Using Corporate Governance Indicators in Malaysia**', by Aida Maria Ismail for her PhD study to:

i. develop a conceptual framework to guide corporate integrity modelling and assessments using corporate governance indicators;
ii. examine the relationship between the level of corporate governance practices which portrays corporate integrity level and corporate performance; and
iii. develop a Corporate Integrity Assessment Scorecard and test the scorecard.

CERTIFICATION BY SUBJECT

I, Mohd Nazlan B. Mohd Ghazali
of **Malayan Banking Bhd,** 14th Floor, Menara Maybank 100, Jalan Tun Perak 50050 Kuala Lumpur, Malaysia

I certify that I am, at least 18 years old* and that I am voluntarily giving my consent to participate in the study: '**Development of a Corporate Integrity Assessment Instrument Using Corporate Governance Indicators in Malaysia**', being conducted at Victoria University by Professor Anona Armstrong and Professor Colin Clark.

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by Aida Maria Ismail, and that I freely consent to participate.

- a structured interviews to gauge the meaning of corporate integrity and validating the scorecard developed,
- a survey base on the Corporate Integrity Assessment Scorecard checklist,

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed:

Date:

Any queries about your participation in this project may be directed to the researcher, Professor Anona Armstrong at 61399191315 or email anona.armstrong@vu.edu.au. If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781

Consent Form - Survey

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FOR PARTICIPANTS
INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS:
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iv. develop a conceptual framework to guide corporate integrity modelling and assessments using corporate governance indicators;
v. examine the relationship between the level of corporate governance practices which portrays corporate integrity level and corporate performance; and
vi. develop a Corporate Integrity Assessment Scorecard and test the scorecard.

CERTIFICATION BY SUBJECT

I, "[Click here & type participant's name]"
of "[Click here & type participant's suburb]"

I certify that I am at least 18 years old* and that I am voluntarily giving my consent to participate in the study: '**Development of a Corporate Integrity Assessment Instrument Using Corporate Governance Indicators in Malaysia**', being conducted at Victoria University by Professor Anona Armstrong and Professor Colin Clark.

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by Aida Maria Ismail, and that I freely consent to participate.

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I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

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Signed:

Date:

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MALAYSIAN CODE ON CORPORATE GOVERNANCE

(Revised 2007)

Securities Commission
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur
Malaysia
Tel: 03–6204 8000 Fax: 03–6201 1818
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C O N T E N T S

PREFACE

The *Malaysian Code on Corporate Governance* (Code), first issued in March 2000, marked a significant milestone in corporate governance reform in Malaysia. It codified the principles and best practices of good governance and described optimal corporate governance structures and internal processes.

Since the release of the Code, the Malaysian corporate scene has made significant strides in corporate governance standards. The mandatory reporting of compliance with the Code has enabled shareholders and the public to assess and determine the standards of corporate governance by listed companies.

While significant improvement has been achieved, it is now timely to review the Code to further strengthen corporate governance practices in line with developments in the domestic and international capital markets. In this respect, the Prime Minister, Dato' Seri Abdullah Ahmad Badawi had announced in the Budget 2008 speech that "the Code is being reviewed to improve the quality of the board of public listed companies (PLCs) by putting in place the criteria for qualification of directors and strengthening the audit committee, as well as the internal audit function of the PLCs…. To ensure the effectiveness of the audit committee of PLCs, executive directors will no longer be allowed to become members of the audit committee. In addition, the internal audit function will be mandated for all PLCs, and the board of directors will be responsible for ensuring the adherence to the scope of internal audit functions…."

The *Malaysian Code on Corporate Governance* as revised in 2007 represents the continued collaborative efforts between Government and the industry. The Securities Commission (SC) would like to thank the Companies Commission of Malaysia, Bursa Malaysia Berhad, Bank Negara Malaysia, the Bar Council, the Federation of Public Listed Companies, the Malaysian Institute of Corporate Governance, the Minority Shareholders Watchdog Group, the Malaysian Accounting Standards Board, the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants, The Institute of Internal Auditors Malaysia, the Malaysian Institute of Chartered Secretaries and Accountants and the Malaysian Investment Banking Association for their invaluable feedback and comments.

The Revised Code – Key Amendments

Key amendments to the Code are aimed at strengthening the board of directors and audit committees, and ensuring that the board of directors and audit committees discharge their roles and responsibilities effectively.

The amendments spell out the eligibility criteria for appointment of directors and the role of the nominating committee. On audit committees, the amendments spell out the eligibility criteria for appointment as an audit committee member, the composition of audit committees, the frequency of meetings and the need for continuous training. In addition, internal audit functions are now required in all PLCs and the reporting line for internal auditors clarified. For ease of reference, elaboration of the amendments (boxed) are provided in Part 2 of the Code.

Revised as at 1 October 2007.

INTRODUCTION

INTRODUCTION

1. THE SIGNIFICANCE OF A CODE ON CORPORATE GOVERNANCE FOR MALAYSIA

1.1 The *Malaysian Code on Corporate Governance* (Code) was developed by the Working Group on Best Practices in Corporate Governance (JPK1) and subsequently approved by the High Level Finance Committee on Corporate Governance. JPK1 was chaired by the Chairman of the Federation of Public Listed Companies. The members of JPK1 comprised a mix of private and public sector participation.

1.2 The Code was principally an initiative of the private sector. The need for a Code was inspired in part by a desire for the private sector to initiate and lead a review and to establish reforms of standards of corporate governance at a micro level. This was based on the belief that in some aspects, self-regulation was preferable and the standards developed by those involved would be more acceptable and thus more enduring.

1.3 The Code essentially aims to set out principles and best practices on structures and processes that companies may use in their operations towards achieving the optimal governance framework. These structures and processes exist at a micro-level which include issues such as the composition of the board, procedures for recruiting new directors, remuneration of directors, the use of board committees, their mandates and their activities.

1.4 The significance of the Code is that it allows for a more constructive and flexible response to raise standards in corporate governance as opposed to the more black and white response engendered by statute or regulation. It is in recognition of the fact that there are aspects of corporate governance where statutory regulation is necessary and others where self-regulation, complemented by market regulation is more appropriate.

1.5 The need for a code also results from economic forces and the need to reinvent the corporate enterprise, so as to efficiently meet emerging global competition. The world's economies are tending towards market orientation. In market-oriented economies, companies are less protected by traditional and prescriptive legal rules and regulations. Malaysia is no exception and the shift to a full-disclosure regime, already underway in Malaysia, is such an example. Hence, there is a need for companies to be more efficient and well managed than ever before to meet existing and anticipated world-wide competition. The role of directors then increases in importance. The role of the board in hiring the right management, compensating, monitoring, replacing and planning the succession of senior management is crucial, as management undertakes the key responsibility for the enterprise's efficiency and competitiveness. The role of the Code is to guide boards by clarifying their responsibilities and providing prescriptions, thereby strengthening the control exercised by boards over their companies.

1.6 Standards developed for Malaysia must measure up to international thinking on this subject. Therefore, in developing the Code, careful consideration has been given to developments in other jurisdictions.

2. THE APPROACH UNDER THE MALAYSIAN CODE ON CORPORATE GOVERNANCE

2.1 There are three broad approaches to the issue of corporate governance undertaken by jurisdictions around the world –

- A prescriptive approach – where the standard of corporate governance is set by specifying desirable practices coupled with a requirement to disclose compliance with them.

- A non-prescriptive approach – This approach requires corporate governance practices in a company to be disclosed. The emphasis here is on the disclosure of actual corporate governance practices. The thinking behind this approach is that each company's corporate governance needs are different and directors of companies should address these needs.

- The hybrid approach – This involves the use of broad principles which are applied flexibly to the varying circumstances of individual companies.

2.2 The Code draws from the United Kingdom's (UK) experience set out in the Hampel Report. This involved the use of best practice prescriptions together with a rule requiring disclosure of the extent to which listed companies have complied with the prescriptions and where they have not, the reasons why. It is not proposed that companies should be required to comply strictly with the prescriptions developed. Each company should have the flexibility to develop its own approach to corporate governance. And while the prescriptions establish a sound approach to corporate governance, companies may develop alternatives that may be just as sound. Nevertheless the prescriptions set the standard that companies must measure up to. Such a rule also ensures that the investment community receives an explanation for the company's approach to governance so that it is in a position to support the approach or work to influence change.

2.3 In addition, companies must be encouraged to consciously address their governance needs. In this respect, companies must avoid compliance with form or "box ticking" and instead, should focus their efforts on exercising their judgement on the corporate governance practices best suited for their companies.

2.4 Companies are therefore required to include in the annual report a narrative account of how they had apply the broad principles set out in the Code. However, the form and content of the statements are not prescribed. This aims to secure sufficient disclosure so that investors and others can assess the company's performance and governance practices, and can respond in an informed way.

3. THE RECOMMENDATIONS

The Code sets out three forms of recommendations:

- **Principles**

  Part 1 sets out broad principles of good corporate governance for Malaysia. The objective of the principles is to allow companies flexibility in applying the principles according to the varying circumstances of individual companies. Companies will be required by the *Listing Requirements of Bursa Malaysia* to include in their narrative statements, have applied the relevant principles in the annual report. This is to secure sufficient disclosure so that investors and others can assess companies' performance and governance practices, and respond in an informed way.

- **Best practices in corporate governance**

  Part 2 sets out best practices for companies. It identifies a set of guidelines or practices intended to assist companies in designing their approach to corporate governance. While compliance with best practices is voluntary, companies are required as a provision of the *Listing Requirements of Bursa Malaysia* to state in their annual reports, the extent to which they have complied with the best practices set out in Part 2 and explain the circumstances justifying departure from such best practices.

- **Exhortations to other participants**

  Part 3 is not addressed to listed companies but to investors and auditors to enhance their role in corporate governance. These principles are voluntary.

4. COMPLIANCE

4.1 Paragraph 15.26 of the *Listing Requirements of Bursa Malaysia* requires all listed companies to state in their annual reports:

- how they have applied the principles set out in Part 1;
- the extent to which they have complied with the best practices set out in Part 2;
- identify and give reasons for areas of non-compliance; and
- where applicable, state the alternative practice(s) adopted.

4.2 In Parts 1 and 2, boards are not required to comment on every item of the revised Code which they have complied with, but to disclose each area of non-compliance.

Sanctions for non-disclosure

4.3 Where a company fails to disclose the matters in its annual report, set out in para 4.1 above, Bursa Malaysia can take action against the company or its directors as set out in the *Listing Requirements of Bursa Malaysia*.

Part 1

PRINCIPLES OF CORPORATE GOVERNANCE

Part 1
PRINCIPLES OF CORPORATE GOVERNANCE

A DIRECTORS

I The Board

Every listed company should be headed by an effective board which should lead and control the company.

II Board Balance

The board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision making.

III Supply of Information

The board should be supplied in a timely fashion with information in a form and of a quality appropriate to enable it to discharge its duties.

IV Appointments to the Board

There should be a formal and transparent procedure for the appointment of new directors to the board.

V Re-election

All directors should be required to submit themselves for re-election at regular intervals and at least every three years.

B DIRECTORS' REMUNERATION

I The Level and Make-up of Remuneration

Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. The component parts of remuneration should be structured so as to link rewards to corporate and individual performance, in the case of executive directors. In the case of non-executive directors, the level of remuneration should reflect the experience and level of responsibilities undertaken by the particular non-executive concerned.

II Procedure

Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

III Disclosure

The company's annual report should contain details of the remuneration of each director.

C SHAREHOLDERS

I Dialogue Between Companies and Investors

Companies and institutional shareholders should each be ready, where practicable, to enter into a dialogue based on the mutual understanding of objectives.

II The AGM

Companies should use the AGM to communicate with private investors and encourage their participation.

D ACCOUNTABILITY AND AUDIT

I Financial Reporting

The board should present a balanced and understandable assessment on the company's position and prospects.

II Internal Control

The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

III Relationship with Auditors

The board should establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors.

Part 2

BEST PRACTICES IN CORPORATE GOVERNANCE

Part 2
BEST PRACTICES IN CORPORATE GOVERNANCE

AA THE BOARD OF DIRECTORS

I Principal Responsibilities of the Board

The board should explicitly assume the following six specific responsibilities, which facilitate the discharge of the board's stewardship responsibilities:

- Reviewing and adopting a strategic plan for the company;
- Overseeing the conduct of the company's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management;
- Developing and implementing an investor relations programme or shareholder communications policy for the company; and
- Reviewing the adequacy and the integrity of the company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Constituting an effective board

II Chairman and Chief Executive Officer

There should be a clearly accepted division of responsibilities at the head of the company which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the roles are combined there should be a strong independent element on the board. A decision to combine the roles of chairman and chief executive officer should be publicly explained.

III Board Balance

Non-executive directors should be persons of calibre, credibility and have the necessary skill and experience to bring an independent judgement to bear on the issues of strategy, performance and resources, including key appointments and standards of conduct. To be effective, independent non-executive directors should make up at least one-third of the board membership.

Size of non-executive participation

IV In circumstances where a company has a significant shareholder, in addition to the requirement that one-third of the board should comprise independent non-executive directors, the board should include a number of directors which fairly reflects the investment in the company by shareholders other than the significant shareholder. For this purpose, "significant shareholder" is defined as a shareholder with the ability to exercise a majority of votes for the election of directors.

V In circumstances where a shareholder holds less than the majority but is still the largest shareholder, the board will have to exercise judgement in determining the appropriate number of directors which will fairly reflect the interest of the remaining shareholders.

VI The board should disclose on an annual basis whether one-third of the board is independent, and in circumstances where the company has a significant shareholder, whether it satisfies the requirement to fairly reflect, through board representation, the investment of the minority shareholders in the company. The board should disclose its analysis of the application of the best practices set out above to the circumstances of the board.

VII Whether or not the role of chairman and chief executive officer are combined, the board should identify a senior independent non-executive director in the annual report to whom concerns may be conveyed.

VIII Appointments to the Board

The board of every company should appoint a committee of directors composed exclusively of non-executive directors, a majority of whom are independent, with the responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis. The actual decision as to who should be nominated should be the responsibility of the full board after considering the recommendations of such a committee. The nominating committee should–

- recommend to the board, candidates for all directorships to be filled by the shareholders or the board. In making its recommendations, the nominating committee should consider the candidates'– *[Amended 1/10/2007]*
  - skills, knowledge, expertise and experience;
  - professionalism;
  - integrity; and
  - in the case of candidates for the position of independent non-executive directors, the nominating committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors;
- consider, in making its recommendations, candidates for directorships proposed by the chief executive officer and, within the bounds of practicability, by any other senior executive or any director or shareholder; and

- recommend to the board, directors to fill the seats on board committees.

> *The revised Code provides greater clarity on the aspects which a nominating committee should consider when recommending candidates for directorships.*

IX The board, through the nominating committee, should annually review its required mix of skills and experience and other qualities, including core competencies which non-executive directors should bring to the board. This should be disclosed in the annual report.

X The board should implement a process, to be carried out by the nominating committee annually, for assessing the effectiveness of the board as a whole, the committees of the board, and for assessing the contribution of each individual director, including independent non-executive directors, as well as the chief executive officer. All assessments and evaluations carried out by the nominating committee in the discharge of all its functions should be properly documented. *[Amended 1/10/2007]* *[Amended 1/10/2007]*

> *The revised Code places importance on the process carried out by the nominating committee in evaluating members of the board, including the independent non-executive directors and chief executive officer. A nominating committee should also ensure that its assessments and evaluations are properly documented.*

XI Boards should be entitled to the services of a company secretary who must ensure that all appointments are properly made, that all necessary information is obtained from directors, both for the company's own records and for the purposes of meeting statutory obligations, as well as obligations arising from the *Listing Requirements of Bursa Malaysia* or other regulatory requirements.

XII **Size of Boards**
Every board should examine its size, with a view to determining the impact of the number upon its effectiveness.

XIII **Directors' Training**
As an integral element of the process of appointing new directors, each company should provide an orientation and education programme for new recruits to the board.

Board structures and procedures

XIV The board should meet regularly, with due notice of issues to be discussed. The board should record its deliberations, in terms of the issues discussed, and the conclusions in discharging its duties and responsibilities. The board should disclose the number of board meetings held a year and the details of attendance of each individual director in respect of meetings held. *[Amended 1/10/2007]*

> *The revised Code requires the board to properly record not only decisions made but also all the issues discussed in arriving at the decisions. This serves to provide a historical record and insight into those decisions.*

XV The board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly in its hands.

Relationship of the board to management

XVI The board, together with the chief executive officer, should develop position descriptions for the board and for the chief executive officer, involving definition of the limits to management's responsibilities. In addition, the board should approve or develop, with the chief executive officer, the corporate objectives for which the chief executive officer is responsible to meet.

XVII Quality of Information
The board should receive information that is not just historical or bottom line and financial oriented, but information that goes beyond assessing the quantitative performance of the enterprise, and looks at other performance factors, such as customer satisfaction, product and service quality, market share, market reaction, environmental performance and so on, when dealing with any item on the agenda.

XVIII The chairman of the board should undertake primary responsibility for organising information necessary for the board to deal with the agenda and for providing this information to directors on a timely basis. If the chairman is also the chief executive officer, the board should also have in place a procedure to ensure that its agenda items are placed on the agenda and for providing this information to directors.

XIX Access to Information
Directors should have access to all information within a company whether as a full board or in their individual capacity, in furtherance of their duties.

XX Access to Advice
There should be an agreed procedure for directors, whether as a full board or in their individual capacity, in furtherance of their duties, to take independent professional advice at the company's expense, if necessary.

XXI All directors should have access to the advice and services of the company secretary.

XXII Directors should appoint as secretary, someone who is capable of carrying out the duties to which the post entails, and his removal should be a matter for the board as a whole. The board should recognise that the chairman is entitled to the strong and positive support of the company secretary in ensuring the effective functioning of the board.

XXIII Use of Board Committees

Where the board appoints a committee, it should spell out the authority of the committee and, in particular, whether the committee has the authority to act on behalf of the board or just the authority to examine a particular issue and report back to the board with a recommendation.

XXIV Remuneration Committees

Boards should appoint remuneration committees, consisting wholly or mainly of non-executive directors, to recommend to the board the remuneration of the executive directors in all its forms, drawing from outside advice as necessary. Executive directors should play no part in decisions on their own remuneration. Membership of the remuneration committee should appear in the directors' report.

The determination of remuneration packages of non-executive directors, including non-executive chairmen, should be a matter for the board as a whole. The individuals concerned should abstain from discussing their own remuneration.

BB ACCOUNTABILITY AND AUDIT

The audit committee

I The board should establish an audit committee comprising at least three members, a majority of whom are independent. All members of the audit committee should be non-executive directors. The board should provide the audit committee with written terms of reference which deal clearly with its authority and duties. *[Amended 1/10/2007]*

All members of the audit committee should be financially literate and at least one should be a member of an accounting association or body. *[Amended 1/10/2007]*

> *The revised Code strives to strengthen the role of audit committees by requiring the committees to comprise fully of non-executive directors. In addition, all its members should be able to read, analyse and interpret financial statements so that they will be able to effectively discharge their functions.*

II The duties of the audit committee should include the following:

(i) To consider the appointment of the external auditor, the audit fee and any question of resignation or dismissal;

(ii) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

(iii) To review the quarterly and year-end financial statements of the board, focusing particularly on–

- any change in accounting policies and practices;
- significant adjustments arising from the audit;
- the going concern assumption; and
- compliance with accounting standards and other legal requirements.

(iv) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);

(v) To review the external auditor's management letter and management's response;

(vi) To do the following, in relation to the internal audit function– *[Amended 1/10/2007]*

- review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
- review any appraisal or assessment of the performance of members of the internal audit function;
- approve any appointment or termination of senior staff members of the internal audit function; and
- take cognisance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.

(vii) To consider any related-party transactions that may arise within the company or group;

(viii) To consider the major findings of internal investigations and management's response; and

(ix) To consider other topics as defined by the board.

III The finance director, the head of internal audit and a representative of the external auditors should normally attend meetings. Other board members may attend meetings upon the invitation of the audit committee. However, the committee should meet with the external auditors without executive board members present at least twice a year. *[Amended 1/10/2007]*

The revised Code increases the frequency of meetings between the audit committee and the external auditor without the executive board members present. This encourages a greater exchange of free and honest views and opinions between both parties.

IV The audit committee should have explicit authority to investigate any matter within its terms of reference, the resources to do so, and full access to information. The committee should be able to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.

V The audit committee should meet regularly, with due notice of issues to be discussed, and should record its conclusions in discharging its duties and responsibilities.

The chairman of the audit committee should engage on a continuous basis with senior management, such as the chairman, the chief executive officer, the finance director, the head of internal audit and the external auditors in order to be kept informed of matters affecting the company. *[Amended 1/10/2007]*

The revised Code places greater emphasis on continuous engagement between the chairman of the audit committee and senior management of the company, as well as the external auditors. Through the engagements, relevant issues affecting the company can be brought to the attention of the audit committee in a timely manner.

VI The board should disclose in an informative way, details of the activities of audit committees, the number of audit meetings held in a year, details of attendance of each director in respect of meetings, and the details of relevant training attended by each director. *[Amended 1/10/2007]*

VII The board should establish an internal audit function and identify a head of internal audit who reports directly to the audit committee. The head of internal audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control, and governance processes within the company. *[Amended 1/10/2007]*

The revised Code recognises the importance of the internal audit function by requiring all companies to have an internal audit function. In order to preserve the independence of the internal audit function, the head of internal audit should report directly to the audit committee.

VIII The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care. The board or the audit committee should determine the remit of the internal audit function.

CC SHAREHOLDERS

The relationship between the board and shareholders

I The boards should maintain an effective communications policy that enables both the board and management to communicate effectively with its shareholders, stakeholders and the public. This policy must effectively interpret the operations of the company to the shareholders and must accommodate feedback from shareholders, which should be factored into the company's business decisions.

Part 3

PRINCIPLES AND BEST PRACTICES FOR OTHER CORPORATE PARTICIPANTS

Part 3
PRINCIPLES AND BEST PRACTICES FOR OTHER CORPORATE PARTICIPANTS

I Shareholder Voting

Institutional shareholders have a responsibility to make considered use of their votes.

II Dialogue between Companies and Investors

Institutional investors should encourage direct contact with companies, including constructive communication with both senior management and board members about performance, corporate governance, and other matters affecting shareholders' interest.

III Evaluation of Governance Disclosures

When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional investors and their advisers should give due weight to all relevant factors drawn to their attention.

IV External Auditors

The external auditors should independently report to shareholders in accordance with statutory and professional requirements and independently assure the board on the discharge of its responsibilities under principles DI and DII of Part I in accordance with professional guidance.