Ethics in Malaysian Corporate Governance Practices

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Abstract

This study attempts to fill the lacuna in the area of governance practices - exploration of ethics in the context of corporate governance. The aim of this study is to understand the meaning of corporate governance from social reality view and examine ethics dimensions that stimulate governance practices. In order to achieve the aimed of the study, interpretive approach is employed. Interviews and documents were used for gathering evidence in examining the issue. The findings revealed several ethical dimension that stimulate good governance practices. This study offers the following contribution: the recommendation to instil ethics in Malaysian corporate governance practices. Thus, introduced new approach towards the Malaysian corporate governance system.

Introduction

The global economic environment and its effect on corporate behaviour have raised concern on corporate governance. As such, corporate governance initiatives have been established to improve the way corporate behave. Ironically, although continuous corporate governance initiatives have been established, corporate phenomena (i.e., corporate scandals) have become a major item on the business agenda. The depth of the corporate scandals triggered mistrust in the corporate business practices. The question remains – what went wrong? Although various opinions have been articulated in response to this uncertainty, ethics have been identified as a significant factor for solving the corporate phenomenon.

Nonetheless, it has been noted that limited studies have explored corporate governance outside the confines of legal perspective. The literature review indicates that prior studies related to corporate governance have largely focused on governance structure. Notably, there has been less focus on the ethical considerations of governance. Academic literature in accounting, in particular, has been dominated by shareholder and stakeholder legitimacy, thereby demonstrating a lack of focus on ethical theory. Hence, it is the intention of this study to understand corporate governance concept and theorizing ethics in governance perspective. In do so, the study employed interpretivism approach. Within the context of interpretivism, several ethical mechanisms were discovered. The key contribution of this study is recommending ethical elements to improve corporate governance practices. Incorporating ethics into governance practices will encourage belief in the ability to deliver sustainable business.

Background

Despite continuous initiatives and efforts to improve governance practices, the dilemma of corporate governance remains unresolved until today. Case after case of ‘mini-Enrons’, as described by Abdullah (2007), who associates corporations with financial irregularities (e.g., Megan Media Holding Bhd, Wimemes Corp Berhad) and overstated revenue (e.g., Transmile Group Bhd) have continuously been in the media spotlight. In addition, the report on corporate governance offences revealed that the highest profile of offences prosecuted by the Securities Commission from 1999 to June 2005 (prosecution of 50.85%) related to corporate governance flaws (Sulaiman et al., 2006). Notwithstanding, in 2004, a joint study by Standard and Poor’s, a foreign credit rating agency, and the National University of Singapore reported that in terms of corporate governance, Malaysia ‘had a long way to go’ (Toh, 2004).
In 2005, an International survey conducted by ROSC on corporate governance assessment showed Malaysia as being in fourth place among the ten Asian countries evaluated, with a corporate governance enforcement score of 4.9 from 3.5 previously, and an institutional mechanism and corporate governance culture score of 3.8 (Chantanayingyong, 2006). Judging from the scores concerning corporate governance practices, there has been some improvement, such as the recommendations by the Malaysian Code of Corporate Governance (2007) and Bursa Listing Requirements (i.e., Practice Note 15). However, how much improvement has been made by Malaysia concerning the corporate governance reform agenda remains to be seen and there is still considerable room for Malaysia to improve.

Prior Studies

It has been noted that limited studies have explored corporate governance outside the confines of legal aspect. The literature review indicates that prior studies related to corporate governance have largely focused on the composition of governance structure (i.e., compliance) in relation to financial aspects. A similar contribution towards empirical evidence regarding corporate governance is noted in Malaysia where the focus is on the relationship between corporate governance compliance and firm, rather than the ethical perspective. This could be explained by theoretical and empirical reasons. In regards to theoretical reason, the development of governance theories (i.e., agency theory) has always been concerned with economic logic in solving corporate phenomenon (Gaffikin, 2007). As a result of the supremacy of economic logic, which focused on shareholder and stakeholder legitimacy, a lack of focus on ethical consideration is observed. Thus, explains the slowness of accounting theorists in recognizing social interaction in the accounting discipline (Gaffikin, 2007). Arguably, governance theories, such as the stakeholder theory, which has been tailored towards ruled governance, overlooks the social contract, which is an important element in the way today’s business is conducted. In regards to empirical reason, literature on corporate governance commonly focuses on the single bottom line, particularly company financial performance (e.g., Bhagat and Black, 1999); less attention has been focused on the triple bottom line, which includes the social (e.g., ethics) and environmental aspects of governance.

Given the importance of the issue, there is a need to understand the phenomenon based on the ethical aspects of governance. The integration of behavioural and economic theories needs to be examined in order to provide appropriate understanding of the corporate phenomenon. This study puts forward ethical elements, which have been recommended by several study (Arjon, 2005; MacKenzie, 2004) as part of the solution to corporate failures. This study adopts the suggestion that ethics is the solution for corporate governance. Hence, this study leads to the following study question: can corporate ethics be an integrated part of Malaysian corporate governance practices?

Research Method

How is the world viewed in this study? Corporate governance concepts are often referred to in the literature as being complex and subjective (Collier and Roberts, 2001; McNamee and Fleming, 2006). As the nature of the governance issue is subjective, social constructionist ontology is adopted to examine the research issue. Easterby-Smith et al. (2002) claim that when one views the world as being subjective (i.e., not objective and exterior), the social constructionist application is appropriate. Social constructionist ontology observes reality by understanding the different views rather than focusing on the fundamental laws (as viewed by the realist ontology) of a phenomenon (Creswell, 2007). The essence of social constructionism is that the reality is determined by the people rather than by the objective and external factors. Hence, the task of the study is to appreciate the different constructions of the meaning the people place upon their experience, rather than on facts, patterns and fundamental law (Easterby-Smith, 2002). The perspective of social constructionism includes understanding reality – how people invent structures in order to make sense of what is around them. This illustrates the intention of the study of knowing the process of ethics in governing corporate practices through the interaction of society.

The study engaged in a social process that involves the interplay between representing or mapping means and managing the process of governance by the assessment of meaning. Rather than starting with a theory, the study generates a pattern of meaning. As such, the methodological assumption using the inductive process is used. Thus, the enquiry method concerning the topic is pursued.
Guided by Gastell (2000), the steps in the qualitative interview process of inquiry are embraced. The process involves preparing the topic, selecting the method of interview, designing the strategy for the selection of respondents, conducting the interview, transcribing interviews and text corpus analysis. The use of documents as the multiple data collection method is the basis to support the rigour in the methodology process of evidence gathering. In sum, this study focuses on the quality of the study and not the quantity and the product requires rich description of the phenomena, which, as described by Merriam (1998), suits qualitative methodology.

**Evidence gathering procedure**

The present study uses non-probability sampling for sample selection, specifically, purposive sampling using the snowballing technique. Silverman (2005) stated that purposive sampling allows the study to choose the case based on the features or process of interest of the study. Two groups of cases are involved – key players of corporate governance in Malaysia and companies that are recognized to have obtained a high score for corporate governance practices. The first group comprises the key players who are influential individuals or associations involved in the Malaysian reformation of the corporate governance structure, such as associations, regulators, and leaders. Their significant role indicates that their perspective and views are crucial for this study. The selection criteria for the key players (13 individuals from different groups of society including former Malaysian prime minister, President of MICG, MIA, MISWG, MICPA, MAICSA, IIM, BEIM, CCM, academicians, KHAZANAH NASIONAL and Consultants) was based on the study conducted by Liew (2007) and the recommendation of respondents, which is also known as the snowballing technique. Liew (2007) listed the above organizations as among the key players involved in Malaysian corporate governance reforms. The key players are also among the respondents recommended by other respondents based on their relevance to the topic of this study. For example, the MIA president recommended seeing the MIGC president.

In reference to the second group of respondents, the selection of companies (15 public listed companies), was based on the ‘Corporate Governance Survey Report 2008’ by a joint study by the University of Nottingham and the Malaysian Shareholder Watchdog Group (2008). The basis of selection was companies recognised as having a high standard of corporate governance practice. The study went through the list of the Survey Report and contact was made according to the list based on the companies ranked (i.e. from no.1 to 35). Fifteen companies agreed to be interviewed and, thus, appointments were made. A letter of introduction and together with a letter seeking consent were sent via email prior to the interview.

Interviews lasting about 90 minutes to 150 minutes were conducted at the premises of the participants. Interviews followed a conversation-discussion based approach. The idea for such an approach is because of the sensitivity of the topic, thus, a more interactive environment is preferred to identify the true practices of the respondents. Social constructionism interview techniques were used to generate information from the respondents. Social constructionist interviews better fit the nature of the study as they feature a loose structure allowing the use of probes to follow up points of interest, and the need for reflexivity on the part of the study, as described by Cassell and Symon (2004). Initially calls were made to the companies corporate affairs division to request the name of the ‘best person to talk to concerning the topic’. Normally, corporate affairs will refer to the respondents who are the Chief Executive Directors (CEO), Head of Corporate Governance, Head of Risk Management, Head of Internal Audit, or the Company Secretary. Reference to the sample respondents was based on their experience, involvement and influence (i.e. position) in the companies. Generally, two respondents (as indicated above) will be present during the interview. Prior to the interviews, annual reports were reviewed to validate and confirm the data obtained during the interviews. In addition, public accessible information was also referred to in order to clarify ethical matters relating to the governance issue of the companies.

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1 MIA (Malaysian Institute of Accountants), MICG (Malaysian Institute of Corporate Governance), BEIM (Business Ethics Institute Malaysia, IIM (Institute Integrity Malaysia), MISWG (Malaysian Institute Shareholder Watchdog Group), MICPA (Malaysian Institute of Certified Public Accountants), MAICSA (Malaysian Association of the Institute of Chartered Secretaries and Administrators), CCM (Companies Commission Malaysia)
Study Findings

This section describes the analysis of the evidence gathered from the respondents. The findings are based on the perception of the respondents selected for the study (i.e., key players and public listed companies). The findings answer the two objectives of the study. Based on the application of interpretive epistemology, the study employed the suggestion of Miles and Huberman (1994) concerning data analysis techniques where the evidence gathered was categorized into themes. The analysis process was conducted based on the suggested three processes by Miles and Huberman (1994) for analyzing qualitative data, namely, data reduction, data display, and conclusion drawing. The data reduction phase, as detailed by Miles and Huberman (1994), involved two main processes – transcription and coding of data. The emergence of themes was based on the interpretation of the data, which was done manually, as it enabled the study to feel connected to the data when the interpretation process was conducted. This enabled reminiscences of the interview session to be correlated with the data transcribed, thus, giving real meaning to the findings. The following sections offer the patterns based on the categories of the themes generated from the data gathered.

Coordination of analysis

Study objective 1: explore the concept of understanding corporate governance practices from the perspective of society.

This section presents an interpretation of corporate governance understanding based on what is perceived by the respondents. The views are mainly based on their experience and involvement in the corporate governance structure and reform activities as regulators, institutional investors, professional bodies, leaders, and government agencies, and corporate practitioners. Generally, understanding of the social reality highlighted by the respondents indicate corporate governance practice as a system for running a business. However, ancillary finding discovered was that, the respondents perceived morality is part of the objective of running the business. The following are examples of the quotations explaining the understanding of corporate governance from the perspective of the respondents.

- Corporate governance practice is related with control of behaviour of staff and system, and having the stakeholder as the target audience and the controlling element.
- Corporate governance practice is about running the business morally.
- Corporate governance practices means being transparent in terms of reporting.
- It is about rules. It is about the principles behind the rules. The principles require a moral or ethical foundation.
- It is a system, which includes morals.
- System of being trustee ….rule of running a company.
- System or mechanism, which is good for business.
- Is a control system ‘how it should be’.
- It is conformance and performance.
- Standard and practices that merge compliance and voluntary initiatives.
- Being transparent in terms of reporting.
- Anything that is good for the sake of the company.
- A system that must be carried out by the directors. If directors are not ethically and morally right, the system will fail.

Represented by the above meaning of reality, interpretation of the social construct of the corporate governance is as such:

“Corporate governance is a system of control that guides business activities based on rules, standards or guidelines in discharging its moral obligations towards their stakeholders and society in fulfilling its performance of good behaviour practices in running a corporation.”
Study objective 2: To explore the ethical dimension that stimulate corporate governance practices

Concerning the ethical aspects of corporate governance practices, the socially constructed reality of ethics in corporate governance practices indicates several divisions of claims, i.e., three groups. Some (i.e., group 1) believe corporate governance practice is a value system that shows responsibility to the shareholders and stakeholders. Hence, they (key players no. 6 and 9) perceive that corporate governance practice is a large code of ethics.

Second, group of key players perceive that ethics is a part of corporate governance practices (key player no.3,4,5,7,9,10,11,12 and majority of the companies). This group mainly has a professional background. It is interpreted, that their opinion that ethics is part of corporate governance practices, is due to their understanding and applying professional ethics, hence, they perceived ethics as ‘within corporate governance’. In essence, the perspective of these respondents is based on the nature of reality related to ethics in corporate governance in which ethics is part of the corporate governance structure and process that directs and controls corporations towards good conduct. In other words, corporate governance practices are supplemented by the presence of ethics in the system either implicitly or explicitly. In contrast, the third group (key player no.1) has a different angle of looking at ethics from the perspective of corporate governance practices. Respondent (i.e., key player no.1) believes that ethics is not part of corporate governance but, instead, is the action that is aligned with the practices of corporate governance. He said that ‘…ethics is what ought to be not what it should be’. He perceived ethics as an intrinsic value that should be present in an individual, hence, guiding individual towards good governance practices. Thus, ethics should be working together with corporate governance practices not within the governance practices.

The findings also revealed the reality of knowing ‘what are the core corporate ethics elements that could form the bedrock of corporate governance practices in Malaysia?’ The findings related to the said elements are discussed in the following section.

Conceptual model of ethics in corporate governance perspective

This section highlight several themes emerged from the analysis of data gathered that indicate the core ethics element that stimulate corporate governance practices among Malaysian corporations. The findings answered the second research questions (i.e., how ethics stimulate corporate governance practices). The conceptual model, as depicted in Figure 1.1, illustrate the findings of second research questions as mentioned above. It is developed through an iterative study process that involves planning, collecting and analyzing data (as explained in the research method section). The conceptual model illustrates themes of ethics dimension, namely, ethical structure, integration of ethics culture, ethical leadership, and ethical consideration. Each of the ethical dimension interaction with corporate governance practices will be explained below.

Figure 1: Ethical dimension that stimulate corporate governance practices
i. Ethics structure

Ethics structure emerged as the main ethical dimension perceived by the respondent influence corporate governance practice among the public listed companies. The findings revealed ethics structure is a formal ethics stance such as committee, criteria for directors appointment, code of ethics, ethics audit, ethics training, adopted by the corporations in the study, that guide governance practices. These ethical stance adopted by the corporations promote ethical conduct among the staff, board members and employees of the corporations. The respondents, in particular from the corporations selected for the study, voiced that formal ethics encourages accountability, responsibility and transparency. The findings of this study revealed several formal ethics structure that the respondents (i.e key players) perceived as ethical stance that able to improve corporate governance practices. The respondents from the corporations (i.e companies selected as sample of the study) also indicate such formal ethics structure improved their corporate governance practices. As mentioned by key players no.8; “…you have to do the check and balance in writing. Because man created and can circumvent the system”.

The quotation above, indicate respondent perception that formal ethics structure is required in order to create ethical governance system. The respondent no. 8 for example, perceives that check and balance procedure should be documented to “keep governance practices intact” (respondent no. 8). Such perceptions are also voiced by other respondents, that formal ethics structure is required to ensure implementation of good corporate governance. Based on the data, the study found several formal ethics structures (i.e committees, ethical audit, ethic training, other sources) that the respondents perceived established their good governance practices. Good corporate governance constructed from the social reality means governance with accountability, transparency, responsive, fair, integrity and responsibility.

Committees

There are several significant committees established in the corporations found in the study that guide the corporations towards good governance practices. The respondents revealed that their audit committees and nomination committees are the two main committees that provide significant influence on their governance practices. The respondents informed that audit committees play a major role in their corporations governance structure and process. They believe audit committee chairman play significant role in their success to achieve high corporations governance standard. Respondents no 3, for example, give credit to the chairman of audit committee for the company high standard of corporate governance practices. Company no. 3 is listed among the top ten of public listed companies in the Corporate governance Survey Report 2008, a study conducted by Malaysian Shareholder Watchdog Group and Nottingham University in September 2008 that ranked companies according to their standard of corporate governance practice.

Apart from the audit committee and Nomination Committee, it was discovered that one of the main initiatives towards good governance practices by the respondent’s company was the formation of a Defalcation Committee. Defalcation Committee is a committee that was set up (for example, company no.1) to deliberate all conflict related to ethical issues. Respondent from company no.1 for instance, identify the members of the Defalcation Committee, which are the Chief Finance Officer, Director of Human Resources, General Council and Chief Operating Officer. The purpose of forming this committee, he said was to make decisions concerning violates of ethical conduct. Decision such as disciplinary action will be taken against the unethical individual based on the severity of the cases that are brought by the committee investigation and report by the Internal Auditor. The Defalcation Committee meets once in every six weeks to consult on the cases reported by the Internal Audit Department. The decision of the ‘Defalcation Committee’ is taken seriously by the top management in company no.1. Defalcation Committee also maintain high transparency practices as the committee published the report (information such as the, number of cases reported, type of offences and action taken by the committee) to the employees. According to the respondent from company no.1 this committee has contributed towards the company governance practices, as it is proactive towards taking action relating to unethical conduct, while at the same time maintaining a high standard of individual accountability in the company. The study found that establishment of such committee instilled accountability and transparency practices in particular in terms of supply of information to all level of management.
Criteria for appointment of directors

Although committees guide corporations towards good governance practices, the respondents generally perceived that directors appointed in the corporations is also believed influenced corporations governance practices. As such majority of the respondents highlight that setting criteria for the appointment of directors is important. The respondents pointed to the need for additional criteria for the selection of directors to ensure public confidence towards the standard of governance practices. As mentioned by company no. 1 “… the appointment of director should be beyond their qualification”. He strongly believes that directors of a corporation should not be restricted to skills and knowledge. The Malaysian Code of Corporate Governance (Report on Malaysia Code of Corporate Governance, 2000) recommended that boards should be made up of a combination of directors who have intimate knowledge of the business. However, the Code does not emphasise the credibility of board members in terms of their recognized integrity and credibility. The respondents from company no.1, for example, shared his company criteria for appointment of directors, which the respondent believes is important for corporations to achieve high standard of corporate governance practices. Apart from director’s skills and knowledge, the respondent voiced that the person’s appointed should be based on the directors reputation and integrity. Document analysis conducted by the research confirmed the claimed made regarding the criteria imposed to the corporate directors. The selection of directors for the said company considers take directors reputation and integrity as priority. It is found that majority of the board members of company no.1 had experience in prestigious international companies and the directors established excellent business reputation. The board of director line up in the company are renowned individuals in Malaysia that possessed high integrity. He views that Malaysia has a long way to go in terms of the board members reputation and contribution towards the governance practices. Such perception is given because the respondent perceived Malaysian environment may be dominated by the founder and family, which is probably not in the position to contribute the best to the business.

Code of ethics

One of the suggestions made by the respondents is to formalize the company code of ethics. Respondent no. 2 believes that a code of ethics is a formal ethical stance that is highly recommended to guide corporate governance. He emphasised that Multi National Corporations (MNC) regard a code of ethics to be a very important element of business conduct given that the code of ethics is one of the pillars of success in the MNC’s. However, he added that believing in the code is vital in order to achieve the success of good governance practices. As he remarked: “It [the code of ethics] is a pillar of success for MNC and is a long term investment. You have to believe it, treat it as a culture and that the practice has to start from the chairman of the company and go down to the country head’. Based on his experience of working in a MNC, the code of ethics is important to guide ethical behaviour among the employees. Respondent no. 4, also stated that as ethics is one of the core values practiced in his organization, the employees must reach an understanding of the code of business practice. The respondent believes that in order to remind the employees and to inculcate the importance of the organization’s ethical values in the mindset of every employee in the organization, a declaration such as this needs to be adhered to. The respondent even stated that the vendor and any other related parties involved are also requested to sign the declaration to indicate the seriousness of the values practiced in the organization.

Ethical audit

Further, in order to validate the implementation of the codes, or to “walk the talk”, respondent no. 2, viewed the important role of the auditors. According to him, auditors need to report on any violation against the code of ethics. Any wrongdoing, which violates the code of ethics, must be notified to the authority and also the employees. Auditors, especially the Internal Auditor, must work together with the management to improve the code of ethics. Violations regarding wrongdoing must be notified to the company community. This would keep the organization vigilant of their conduct from top management to the bottom line of staff. Such effort as perceived by majority of the respondents would direct corporations to be more accountable and transparent.
Ethics training

Further, the respondents suggest ethics training is crucial to instil ethical behaviour. Majority of the respondents (i.e. from company no. 2, 4) highlight their corporations ethics training as a premise establish to nurture ethical behaviour. The respondents shared their story that that all of the employees, regardless of position are required to attend the ethical training. The respondents highlight that training should include the importance of ethical values adopted by the corporation. The study revealed physical ethical training programme in their corporations. Generally, the programme is conducted on entry point, where every new staff member is given training relating to ethical conflict to guide them to deal with ethical problems or issues in the future. Some of the staff such as the management manager and the engineer are given training, known as the management attachment programme, where they are trained from six to twelve months. This attachment programme nurtures them to be ethical managers and be better in internal control. For example, respondent from company no.2, claimed that an induction course is the initial stage where the corporate employees were introduced to the ethical stance practiced in the corporation. An awareness of corporate values is suggested by the respondents as to be made a priority during the induction training programme. In addition, one of the respondents (no. 2) voiced that his company provides every new recruit with a set of the code of ethics during the induction programme. The aim of the session is to instil ethical behaviour in newcomers to the company and give advance knowledge to the new recruits of the corporation’s expectation concerning good governance practice in the company. Also, respondents from company no 1 suggested that the knowledge learned in the training needs to be supported by the board, senior management, and the Chief Executive Officer.

In addition, the study also found virtual ethical training as mode to enhance corporate governance practices among the corporations selected. Virtual ethical training is a web based training programme that is established by corporations for the employee in dealing with ethical matters. Virtual ethical training is a form of technology tool established by the respondent (i.e company no.1) to translate problem into solution. Virtual ethical training is a form of internal control mechanism developed to established solution for ethical dilemma faced by employee. The programme contains internal control matters and ethical dilemma, commonly in a form of case studies. It is a facility that guide employee to deal with any ethical issue. Employee able to ask any enquiry related to internal control, risk management and any ethical issue. The training uses virtual reality that is easily accessible and provides quick answers to the employees to resolve their conflict or query relating to ethical issues.

Other sources

Other ethical sources found in the study that contribute towards good governance practices is ethical hotline. The respondents perceived ethical hotline promote ethics and help the corporation to be more transparent and accountable. In order to maintain the integrity of the hotline and the confidentiality of the respondent, an independent unit is mandated to hold the trust of the hotline. Hence, internal audit, being the internal independent department is commonly become the custodian of the hotline. The respondents claimed that the purpose of appointing the internal audit unit as custodian is because the staff have more confidence in reporting any wrongdoing through email or letter instead of directly reporting to the top management. In sum, the respondents view formal ethics structure as legalising the structure adopted by the corporations. However, the respondents linked the success of formal ethics with internal ethics culture. Internal ethics culture is believed as the support of formal structure in order to establish good governance practices. Explanation related to integration of ethical culture is discussed below.

ii. Integration of ethical culture

Respondents perceived that a formal ethics structure, such as mentioned above, is not enough to support good governance practices. Based on their experience, they pointed out that informal structure, such as ethical culture should be integrated with the ethics structure in order to ensure corporations are guided by the ethical aspect of governance. As noted by respondent no. 3: “Ethics is a culture that needs to be consistently consorted and practiced in an organization”. Meanwhile, respondent no. 4 emphasised that if culture of ethic is not instilled, good governance would be difficult to nurture. The study found communications as an ethical process that can nurture good governance practices.
The finding of this study indicate communication in terms of roles, policies, and process of operation should be transferred to the group affected by the corporation’s i.e shareholders, stakeholders, and society. As claimed by several respondents (i.e key player no 3 and 11), ethics is a core value in their corporations, hence, it is their priority to communicate ethics to all levels of management. Quotes from the abovementioned respondents are as such;

- “… we do practice quite a few requirements of this company to promote or communicate ethics...” (respondent no.3).

The statement of respondent no.11 regarding communicating ethics is:

- “… we need to communicate what we believe are the core values of the organization. Look at our statement, our core value is our integrity, about being fair towards our nation building, that is what we stand for.”

Communication can be performed in various ways. One of the commonly used means of communication informed by the respondents are 1) through the media, and 2) official methods, such as annual report, bulletins, and 3) websites. The respondents highlight websites as modern day communication tool that assist corporation to establish their ethical stance. However, analysis of the data indicates although means of ethical stance is important, what is being communicated must be reliably presented and conveyed to the audience. Such conclude that technology advancement has positively initiated corporations to be more transparent, however, the message transferred to the audience must be of high reliability and validity in order to promote the accountability of the corporation.

 Generally, the findings indicate communication of ethical values is done through the internal and external ways of business practice. In regards to internal, specific mechanism is developed to the internal parties i.e employee. For example, company no. 1 highlight that every employee of the company must understand and sign the code of business practice every year. The code of business contained ten pages that lays down precisely what the company stands for; regarding principles of ethics down to the detail of what type of gift they can or cannot not receive. These are signed once a year to remind people of the values practiced in the company. The practice is not restricted to employees, as other relevant parties involved in the company are also bound by their ethical code of business. Communication of ethical values conducted internally, involves understanding of code of business practices within the community of the corporations for example among employee. This is commonly developed through code of business practices. Internal code of business practices is communicated to every individual of the corporations through orientation programme, whereby the code of business practice is explained. The objective of the programme is to ensure that new recruits understand the practice of business conduct in the company and respect the expectation of the company concerning ethical behaviour. In order to bind their responsibility, accountability and duties, the recruits have to sign a code of business practice in their first week of employment. In order to maintain ethics as a core value practice in the company, the company formally communicates to the employees, verbally or formally informing them of any misconduct that has happened in the company.

“… ethics is a core value of the company, on top of company satisfaction and culture...”

External ways of communicating ethics values is conducted through code of business conduct distributed to the vendors and any other relevant party interact with the corporations. Normally, the vendors are required to read and declared their agreement to fulfil the requirement and abide by the ethical conduct adopted by the corporations. Such an agreement would bind the external parties to adopted corporate values and respect the ethical principles established by the corporations. For instance, company no.1 formulated a vendor’s code of business practices. The vendor codes consist of practices that are expected from vendors and the guidelines that are formulated by the company in order to maintain a certain standard of integrity from both parties (the company and the vendor). “All vendors doing business with the company must also sign the code of business practice. They are expected to read and acknowledge that they understood the content. Vendors, who are found to be working against these procedures, would be discontinued from doing business with us”. This, as explained by the respondent from company no.1, is the entry point for external perception of doing business with the company.
Concerning the implementation and effectiveness of the code, the company has a specially established office of Business Practices to provide policy guidance and facilitate compliance with the code. Continuous efforts are taken by the office of Business Practice to identify ways to enhance the high standard of business conduct and ethics in the company. This includes observing a benchmark for best practices to further improve the company’s business practices. The above findings of this study indicate that ethics is a value that is considered by the respondents as a core practice in promoting and communicating good behaviour. Several of the respondents voiced that their corporations do not tolerate unethical behaviour and such message is acknowledged to external parties. The key manifesto of some of the respondents is to operate its business fairly, ethically and in full compliance with all laws and regulations. In order to instil belief in the manifesto, generally, the corporations created a detailed code of business practices guideline for all the relevant external parties. This code of business stipulates how each relevant individual should react and behave in line with the expectation of the company’s good governance practices.

The study also revealed that formal structure and process of integrating ethics (i.e. through culture) directly corporations towards good governance, but people as the navigator in a corporation is crucial to guide the structure and process of governance. Several respondents voiced that the corporate governance practices should not be measured by the structure, rather suggest people that navigate the corporation is a benchmark to be considered in determining the governance practices. The respondents believe that although structure is necessary it has its limitations. This is because the structure does not measure the intrinsic aspects of the company, in particular, the reputation of the leaders. He foresees that the missing element i.e corporate leader integrity reputation, that he believe is very important for investors is not disclosed in the Annual Report. This missing element, he said although subjective should be prescribed in a statement of corporate governance. However, he strongly suggest highly qualified individuals appointed as directors create culture of innovation in a corporation, thus, information related to the corporate leader (i.e board member) should be disclosed and considered as part of governance measurement. What they stand for? Who represents the leadership? Who are they? are some of the questions raised by the said respondent related to the disclosure of information. These information, the respondent perceived, is useful for investor to assess the ethical leadership of the corporate directors appointed. Explanation on the ethical leader will be discussed below.

iii. Ethical leadership

All of the respondents believed that corporations should be run professionally as the leaders are perceived as professional managers. Observing the corporations in the study’s board members description in the annual report, it is found that the quality of board members is indeed indisputable as their various backgrounds, culture and nationality of the board members reflects their professionalism. As mentioned by the respondents, their board members have a good track record. They are highly regarded individuals within the business society. The majority are from reputable multinational corporations. As stressed by one of the respondents (i.e company no. 1 and 2) to stress such point, “basically we get the best people around. Their background is strong so when they go to board meetings they can contribute”. In addition, tone at the top is another ethical leadership attributes that is perceived by the respondents as influenced corporate governance practices among Malaysian corporations. As raised by respondent no. 1, corporations can clearly identify the corporate tone towards the ethical values adopted. The personalities leading the corporations are crucial as they can be considered living proof of the ethical manifesto. As claimed by key player no. 1, “... If we want to establish corporate ethics it must be personalized by the owners...” (respondent no. 1). Similar views were raised by respondents no. 2 and 4; they also believed that having personalized ethical values can help to establish an ethical culture. They strongly believed that top management is the main example for others mirroring the ethical values in an organization.

iv. Established corporate value

It is realized that governance issues are commonly related to the failure of value rather than the failure of structure or law. Hence, to improve the handicap of value failure, a value creation model is required. The findings of the study indicate corporate governance model needs to include value requirement. As mentioned by respondent no 6, first comes value then enforcement. He adds, ‘... if value fails then enforcement should be implemented.'
If value prevails then enforcement is reserved. Several respondents (i.e., key players no. 6 and 7) highlighted Japanese values as an example of assimilating value governance. The promotion of Japanese value is based on the respondent’s interaction with the Japanese working environment (respondent no 6 is a person who is known for his hard working quality). Although both are off different backgrounds and generations, both spoke highly of Japanese value, identifying it as element of good corporate governance practice. The admired characteristics of Japanese value described are loyalty, shame, and hard working. Both of the respondents believe loyalty should be nurtured from an early age. As they pointed, loyalty is instilled in young Japanese, hence, it is built into the individual value, which then becomes a collective value of hard work among Japanese workers. Loyalty to the corporation inculcates ethicality in the workers, thus, they work towards being accountable to the corporation and responsible to others. And the are shameful of their wrong doing, thus they willing to accept the responsibility and be accountable for their action. Thus, the study suggests corporate value model requirement should include loyalty, hard working and shame.

Conclusion

Socially constructed reality findings of this study describes support of morality i.e. ethics in governance context. The designed using an interpretive epistemology approach from the context of social construction nature of reality, found several emerging patterns that established support to the proposition of the study, that ethics can be integrated part of corporate governance. Key patterns such as formal ethics structure, integration of ethical culture, ethical leadership and established corporate value are perceived as ethical dimension that stimulate corporate governance practices. Integration of these variables established transparency, accountability, and responsibility of corporations business conduct. The study contributions towards a new paradigm of corporate governance, whereby integration of social process is introduced. The study is also useful for practitioners, as the practitioners able to adopted the various ethical dimension found in the study in order to establish higher standard of governance practices. However, it is suggested that future research should consider a case study approach in order to examine depth of ethics process influenced on corporate governance practices.

References


