

## Disclosure on Directors and Shareholders of Annual General Meetings – Insights from an International Best Practices

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**Abstract—** The purpose of this paper is to examine the level of disclosure of the Malaysian public listed companies in relation with the information on Annual General Meetings (AGM). The research concentrates on the matters related to the directors and shareholders as they determine the direction of the company. Content analysis of the annual report and the companies' websites were conducted to examine whether these companies provided adequate information as recommended by various international organizations and well known corporate governance. The findings of this research show that some of the best international practices have been observed by these companies; such as information on the new and re-elected directors and the directors' attendance are well complied by all or majority of the companies. However, some other practices such as; shareholders' and directors' attendance during the AGM were ignored by all the companies.

**Keywords-** annual general meeting, disclosure, transparency, corporate governance, Malaysia

### I. INTRODUCTION

Corporate governance is not new for the business entities, especially for the directors. The severe losses suffered not only by the shareholders but also by stakeholders calls for greater accountability and stronger governance structure [1], a more independent role of by external auditor [2] and more information beyond regulatory requirements [3]. The classic Cadbury Report that was produced 18 years ago defined corporate governance as "a system by which companies are directed and controlled." The report clearly states that the shareholders' role in governance is to appoint directors and the auditors and to satisfy themselves that appropriate governance structure is in place [4].

Thus, it is clear that governance is not solely and exclusively the responsibility of the directors, but it should also be shared with the shareholders. The governance system itself is imperfect, and needs help from other "entities" such as business ethics, corporate awareness from external parties, social interests, legal, regulatory and institutional environment [5] to achieve its objectives. As it involves the cooperation of the company, shareholders and stakeholders, the success of the company in pursuing its mission and vision need close monitoring by people outside the company. Arguably, shareholders are the best people to discharge this responsibility.

There are a few ways how shareholders can monitor the performance of the company. These include, appointing independent non-executive directors to join the board thus, providing the necessary check and balance effect on the power and actions by the executive directors. It is expected that the independent non-executive directors can become the ears and eyes of the shareholders by acting in the best interest of the shareholders and the company as a whole. Other than that, shareholders may monitor the company via (to name only a few) disclosure of information in the annual reports, website or other communication tools, appointment of external auditors, approval of director's fees and finally, participate actively in the annual general meeting (AGM).

The annual general meeting is one of the shareholders meeting that is compulsory for the company to conduct. It is a statutory meeting in which any rules and procedures relating to the meeting are stipulated in the company act. For Malaysian companies, their AGMs are subject to Company Act 1965 and in addition to that, any company listed in the stock exchange must also observe the related guidelines as stated in Bursa Malaysia Listing Requirements.

To be effective, the AGM should not be conducted merely as a formality. It is an important forum for the directors to show their accountability and stewardship to the shareholders. It is also an opportunity for shareholders to meet, obtain information and query the directors on matters pertaining to the affairs and running of the company [6]. Therefore, it is not enough for a company to merely comply with the statutory requirements in its AGM. The company should take a few steps to enhance the quality of the AGM conducted.

Thus, the objective of the present study is to explore the level of disclosure of AGMs in accordance to the best international practices. The study is significant as it examines the preparedness of Malaysian PLCs to face one of the global governance issues and to evaluate whether PLCs already comply with various requirements of international code of corporate governance.

### II. LITERATURE REVIEW

The Finance Committee in their report on Corporate Governance 2000 (revised 2007) in principle emphasized that AGM should be used by the companies or directors to communicate with the shareholders [7]. Directors are required to take necessary steps to encourage their participation. In addition, for institutional shareholders, the

company should be ready to enter a dialogue based on mutual understanding of the objectives. Apart from this, the company must also maintain an effective communication policy that enables both board of directors and management to communicate effectively with shareholders, stakeholders and the wider public.

There are not many studies conducted around the world on the AGMs and its contribution to the good governance and performance of the company. [8] in his study based on the companies in Holland found that only 45% of shareholders casted their votes during the AGM. Due to this, he has recommended virtual general meeting to be conducted as an alternative way to solve the problem of low attendance of the shareholders. This recommendation was proposed earlier by [9] that demonstrated benefit of this virtual meeting which would allow shareholders to communicate quickly, efficiently, cost-effective [10], and enable them to be analytical of the agenda, reports, proposals and other discussion papers. Interestingly, this virtual general meeting can be a platform in which( that) the company can create a bulletin board that allows shareholders to set up a constructive dialogue with each other and the board and thereby increase their information supply.

Another interesting study conducted by [11] tried to find out what actually happened during AGMs – is it only a ritual closure, meaning just an annual event for the company to close their account books or an ideal speech situation - meaning the platform for the company to communicate and explain any concern raised by the shareholders. This field study on Swedish company’s AGM found that the AGM is more on a ritual closure as the company established the numbers as a fact and have a strong networks with a string of allies outside the AGM to be included in the process of the accounting for the year. Other than that, the AGM was also seen as a good way for companies to discharge their accountability by clarifying any unsettled issues posted by the shareholders, thus proving to be good leaders for the company.

In a similar study [12] it was found that the top management had used the AGM as a platform to discharge their stewardship functions to the shareholders. This was achieved when the top management provided verbal explanations on the complexity of some accounting information. In addition, visual aids were also used to further enhance the understanding and contextualization of the financial accounts to shareholders of whom majority were private shareholders. Other than obtaining information on accounting, the shareholders questioned the company on its effort to improve the environment, equality and ethical issues.

Does the AGM influence stock market? Studies done on companies in the UK and their relationship with US stock market [13] revealed that information released during the AGM is relevant. An example is when the US stock market responded by showing increase in stock returns and abnormal levels of share trading as was reported by the firms. This is true, especially if the information can clarify any uncertainties about the future of the company’s cash flow.

In Malaysia, there is limited study conducted to assess the quality of the AGMs conducted by the PLCs in Malaysia.

[14] conducted a study to find out the reasons for the passive participation in the AGM by minority shareholders. It was found that, due to the fact that shareholders equity is too small, minorities can’t vote out dominant block holders and individual shareholders are not cohesive to become the top of the lists. Other than that, the joint survey conducted by minority Shareholders Watchdog Group and Nottingham University Business School in 2006 found that almost all companies in their survey claimed to have provided full explanation of the effects of the proposed special resolution in the notice of AGM and provide details of directors seeking re-election in the notices of AGM [15]. This survey however only limits its examination to only two best practices attributes that relate with AGM. Thus, this article tries to extend the study and give more comprehensive coverage on the best practices in conducting the AGMs adopted by PLCs in Malaysia.

### III. (SELECTED) BEST INTERNATIONAL PRACTICES ON ANNUAL GENERAL MEETINGS

For the purpose of this paper, we have selected five (5) best practices carried out during the AGM that may be adopted by the companies, namely brief information on person seeking for appointment as director, detailed attendance of the directors, proxy restriction, detailed attendance of director during the previous AGM and shareholders’ attendance. The example of some the international practices that have become the source of this research (to name a few) include the Cadbury Report [4], the Combined Code [16], the Myners Report [17], the Institute of Chartered Secretaries and Administrators Good Governance Guide [18], the Organization for Economic Co-operation and Development (OECD) Principles [5], the Institute of Corporate Governance Network [19] and many others.

### IV. RESEARCH METHODOLOGY

A measurement instrument was developed with the objective to evaluate the level of compliance of the company’s AGM as stipulated by various best international practices. The scores of the companies were computed based on a dichotomous scale of “Yes=1” and “No=0”, where a “1-point” score denotes the level of compliance with the best practices whilst a “0-point” score represents no compliance.

One hundred (100) PLCs based on top hundred (100) market capitalization that were listed in Bursa Malaysia (a Stock Exchange of Malaysian Companies) as at 31 December 2005 were identified as ( a) sample for the study. Using this instrument, the latest available annual reports of the companies were analysed and their level of disclosure was effectively computed. The annual reports published up to the financial year end as at 30 June 2006 were used in the survey. The distribution sample of the companies based on industries as per Table I.

TABLE I. SAMPLE OF THE COMPANIES BY SECTORS

Sector	No of Companies
Trading/ Services	29

Finance	17
Industrial Products	14
Consumer products	12
Plantation	10
Property	7
Construction	5
Infrastructure Project	5
Technology	1
<b>Total</b>	<b>100</b>

## V. FINDINGS

In general, the compliance on disclosure on the annual general meetings provides a mixed picture. A few practices were well complied by all the companies while in the other hand some of the dimension were not disclosed by the majority of the companies. The summary of the findings as per Table II.

TABLE II. AVERAGE SCORES OF THE BEST PRACTICES OF AGM

	<b>Dimensions of Best Practices</b>	<b>Average Score</b>
1.	Details of individuals who are standing for election or re-election in Statement Accompanying Notices of AGM	100%
2.	Detailed attendance of directors	100%
3.	No proxy restriction	95%
4.	Detailed attendance of directors in previous AGM	0%
5.	Shareholders' attendance	0%

### A. Details of Individuals Who are Standing for Election or Re-election

For the directors that are standing for election and re-election, proper information should be disclosed by the company so that shareholders can make an informed decision to select the best director for the company. [5] really emphasize that the company must provide full disclosure of the experience and background of the candidate. This will allow informed assessment of the ability and experience of the potential directors. The type of information to be disclosed is a matter for the company to decide. This is also part of the local regulatory requirement i.e. Bursa Malaysia Listing Requirements (Listing Requirements) which is to be complied by PLCs.

Other than basic information such as name, age and nationality, the Listings Requirement also requires disclosure of other important information such as qualification, type of directorship (executive director or non-executive director and whether independent or not), directorship of other companies especially listed companies, details of any interest in the securities of the listed issuer and its subsidiaries, family relationship with any existing director, major shareholder of listed issuer, any conflict of interest and the list of convictions for offences with the past 10 years other than traffic offences.

The current survey finds that all companies have provided the above mentioned information, but 12 companies did not indicate where the information was disclosed. Only 16 companies provided the information in Statement Accompanying Notices of AGM (Statement), one

company in the Notice and remaining 71 companies indicated that the information could be obtained in other parts of the annual report.

### B. Detailed Attendance of Directors during Board Meeting

It is a recommended best practice for the companies to disclose detailed attendance of the directors during board meetings. One of the fiduciary duties of directors (executive and non-executive) is to make decision in the best interest of the company and shareholders. This can be done by attending the board meeting which is a good platform for all directors to propose, criticize and finally agree with issues, resolutions and actions. Thus, their attendance will be highly valued by shareholders as demonstrating their commitment towards vote, trust and confidence given by the shareholders. It is not surprising as this requirement is also highly encouraged by the international code of corporate governance and best practices.

The current survey finds that all companies provided detailed attendance of the directors during the board meeting. However, not all companies provided the information in the Statement. Only 29 companies disclosed the information in the Statement while 30 companies provided an indication in the Statement that the information was disclosed in other pages. Remaining 41 companies were silent on this matter. Although it is understood that this information is provided in the Annual Report, normally under Board Of Directors heading, it is best practice for the company to provide clear indication where shareholders can find the information.

### C. No Categorical Restriction on Appointment of Proxies

Bursa Securities Listing Requirement also requires companies to disclose on voting procedures in the notice of AGM. The companies at least need to mention that a member who is entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his behalf.

The main issue about the proxy is there seems to be a growing trend of increasing numbers of proxies attending AGM. Proxies need to be able to represent the shareholders in voting and not be there just for the freebies.

It was noted that there is a growing trend of increasing numbers of proxies attending AGMs. This is not healthy both for the shareholders and the company. From shareholders' perspective, being absent from the only official platform for them to meet the directors will result in lack of knowledge and they will not be able to update themselves with the latest development of the company. Furthermore, the shareholders will be taking a high risk on their expected returns from the company if the direction of the company changes, consequently the risk portfolio of the company may not suit the risk portfolio of the shareholder. It becomes worse if the shareholders keep on changing the proxy every year, as these proxies may not be interested with the main agenda of the AGM but attend merely for the free bites and freebies.

From the company's, perspective too many proxies make the AGM an ineffective forum for discussion and arguments. The directors may receive less valuable feedback, opinion

and fresh ideas from investors especially from foreign investors that can provide new dimension and input for the company to improve its current performance.

Under the ICSA Secretarial Best Practices, proxies are allowed to attend, speak and vote at the AGM, and they need to be an Advocate & Solicitor, a Company Auditor or a person approved by Companies Commission of Malaysia (CCM). This requirement however is not practical and is difficult to be complied by the company because it is very difficult to verify the background of proxies when they show up at the AGM. In addition, this requirement is not relevant anymore as majority of the Malaysian citizens are now more knowledgeable and have more than secondary school education. Thus, it would be the best practice if the company does not apply the above restriction. Our survey finds that 95 of the companies do not impose a categorical restriction on the appointment of proxies.

#### *D. Directors' Attendance during the AGM*

What is the purpose of having a director if he/she is absent at the general meeting? In the eyes of the law, in terms of responsibility and accountability, there is no difference whether the directors are executive or non-executive. Therefore, without valid reason such as ill health, emergency or so forth, there is no excuse for the directors not to attend the general meeting. Surprisingly, the current survey finds that none of the companies disclose this type of information. This is indeed not an encouraging practice because this information will be able to gauge the degree of participation and commitment of the directors.

#### *E. Details of Shareholders' Attendance during the AGM*

Do the details of shareholders' attendance during the general meeting matter? When there is a general election in the country, the government encourages the public or voters to go out and participate in the election. When citizens fully utilize their rights, the percentage of those voting will be high.

Similarly in this case, higher the number of the shareholders' attending the meeting, reflects a strong support to the company and particularly to board of directors. The directors who receive big mandates are more confident and this will boost their moral and accountability to manage the company better. The current survey finds that none of the companies disclose the attendance of the shareholders during the AGM.

### VI. CONCLUSIONS AND RECOMMENDATION

It doesn't matter whether the company is big or small, family owned or non-family owned, government link company (GLC) or non-GLC, multinational company or not, transparency and integrity must be the most important agenda for the company. More disclosure on relatively important information is expected from the company to remove the doubt of not only the shareholders but also the potential investors.

Finally, the survey finds that some of the best international practices such as details of the attendance of the directors and shareholders are not properly adopted by the

PLCs in Malaysia. This will highlight shows that PLCs in Malaysia still lag behind and do not demonstrate good governance and uphold transparency. Therefore, there is a need to educate the directors on the importance of this information and its practices to strengthen the reliability and confidence of the shareholders towards the role of the board of directors.

### VII. LIMITATION AND SUGGESTIONS FOR FUTURE RESEARCH

This study is limited to the disclosure of the AGMs practices in the annual report and website of the company. Future research can be embarked to understand through observation how effectively a company conducts its annual general meeting. Field study and observation can be employed to see among others the procedure, the ambience of the meeting, the behavior of both directors and shareholders and the level of effectiveness of this meeting being used by shareholders as a platform to clarify any matters, uncertainties and dissatisfaction with the board of directors. A comparative study also can be conducted comparing the AGM conducted by different groups of companies such as a company with a highly concentrated shareholding with that of one with widely spread shareholding, family-owned company and non-family owned company and also government-owned company and private enterprise company.

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