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Disclosure of Board Committees by Malaysian Public Listed Companies

Ahmad Saiful Azlin Puteh Salin
Accounting Research Institute,
Faculty of Accountancy,
Universiti Teknologi MARA Perak, Malaysia
e-mail: ahmad577@ perak.uitm.edu.my

Rashidah Abdul Rahman
Normah Omar
Wee Shu Hui
Accounting Research Institute,
Level 12, Menara SAAS, Universiti Teknologi MARA,
Shah Alam, Selangor, Malaysia.

***Abstract*—This paper provides an overview of the disclosure of board committees excluding three key board committees namely audit, nomination and remuneration committees. A content analysis has been conducted on the annual report of the Top 100 public listed companies in Malaysia with the concentration of the study on type of board committee and its function disclosure. We found that about half of the companies selected formed 24 board committees to assist board of directors in making strategic decisions for the company. Most of the companies only have one board committee, namely risk management committee, possibly due to the importance of having good risk management in the company. However, other possible important areas that possibly will impact the long term outlook and position of the company have been ignored.**

Keywords-board committee; corporate governance; public listed companies; Malaysia

I. INTRODUCTION

In recent years, directors have been facing tougher and more challenging tasks in making decisions for the company. For public listed companies especially, directors need to scrutinize many matters that are important to ensure problems can be solved effectively. Careless mistakes such as wrong information and inaccuracy financial figures will possibly lead to the disastrous failure of the company. One of the possible solutions that can be taken to mitigate this risk is by dividing the task among different directors. More specifically, forming a board committee empowered with a certain authority and responsibility in specific areas.

The objective of this paper is to explore the type of board committees established by the company and its disclosure on the functions of such committees. We exclude three committees namely audit, remuneration and nomination committees as these three committees have been widely recommended in the local and global code of best practices of corporate governance. We will concentrate on the functions of the committees, so that they can be adopted and learned by other companies. This study is significant and timely as the findings will be useful for companies that want to establish a committee that is beneficial for them.

The rest of the paper is organized as follows. The literature review is contained in Section II. The methodology and results of the study are discussed in Section III and Section IV consecutively. The concluding remarks and recommendations for future research are discussed in the last section.

II. LITERATURE REVIEW

Compared to the board committees, the research and debate of the three important board committees namely the audit, remuneration and nomination committees have attracted more interest and debate among academicians and practitioners. For example, extensive research has been conducted on the effectiveness of the audit committee. [1] studied to find the influence of audit committee independence on the earning management of the company while [2] examined how the independence, composition, meeting, size, and qualifications of audit committee members contribute to voluntary disclosure practices on earnings management forecast.

The remuneration committee on the other hand plays an important role in determining the remuneration level and behavior of the company, such as significance on the payment to the CEO [3] and corporate fraud [4], while for the nomination committee some researchers are interested to find out about the committee relationship with the earnings management practices of the company [5] and the board roles and its composition [6]. These key board committees (audit, remuneration and nomination) have been widely recommended in renowned international corporate governance report such as [7-9].

Apart from these three key committees, it is hard to find a study conducted on board committees. However, an exception can be found in the risk management committee. As the businesses and operations have now become more complex and they running in an intense and complicated environment, having this committee is critical for the company to survive.

The Malaysian Code of Corporate Governance [10] clearly requires the company, when forming a board committee, to report the level of authority of the committee, that is whether this committee has the power to make decisions on behalf of the board or just merely examine particular issues while the final decision would be determined by the board as a whole.

The Organization for Economic Co-operation and Development (OECD) in their report of the Principles of Corporate Governance [11] encouraged the board of directors to establish sub-board committees when it is considered necessary by the board to exercise not only independent judgment of areas that may attract potential conflict of interest but also key areas of responsibilities. When it is established, their mandate, composition and working procedures should be well defined and disclosed by the board. The companies will also disclose the attendance of the director on the committee meeting to show that the committee is really functioning and contributing to the effective board, inter alia proving of its substance rather than merely achieving formality [11].

The other types of committees are not attracting much attention of the regulator and business community. It is not easy to find any reports, guidelines, listing requirements and corporate governance papers specifically mentioned and required by the company to form other types of board committees. Only a few committees such as risk management, executive and ethics committees have been discussed by certain international corporate governance standards.

For example OECD [11] highly encouraged the ethics committee to be established by a company, in which this committee is responsible for designing a mechanism by which the company receives any matters and information from outside and inside entities related to unethical or illegal practices by corporate officers. ICGN [12] proposed a special committee to be created by the company to look into related party transactions. Comprising of independent directors, this committee is responsible for reviewing every related party transaction to determine whether a transaction is in the best interests of the corporation and whether the terms of the transaction are fair to the corporation. Executive committee has been mentioned once in the Hampel Report [7]. The Hampell committee does not prohibit the company to delegate the operational decisions to the other group of directors and leave it to the company to decide the best course of action.

This situation however, should not undermine how the board of directors works. Rather than practising a box ticking approach towards of the recommendation by the compliance of the corporate governance, more measures should be implemented to adopt the spirit of the principal approach governance. By right, the company should understand that the importance of forming the audit, remuneration and nomination committees is to ensure that there is a dedicated director who works and specialises in the areas that require much attention.

Therefore, when necessary, a small group of directors of the company shall work together in solving problems that may jeopardise the position of the company financially and non-financially as a result of wrong and inaccurate decisions. For example, a company that is in the construction industry is expected to concentrate more in the bidding of tenders for their construction business, locally and internationally while at the same time evaluating tenders submitted by other companies to co-operate with them. Therefore, it is expected that a company that involved in this industry has formed a tender committee. Similarly, a financial institution should have a credit committee to evaluate the credit and gearing position of the company while a company involved in selling consumer products should focus more attention on the branding of their products through a brand committee.

III. RESEARCH METHODOLOGY

There are no specific requirements or formula from any guidelines, rules and regulations for a company to use in order to determine the appropriate level of disclosure of the other board committees. For the purpose of this paper, we concentrated only on the function disclosure of the other board committees.

The sample of the study comprised the top hundred (100) companies based on market capitalization that are listed in Bursa Malaysia as at 31 December 2005. The latest available annual reports of the companies were analysed and their level of disclosure was evaluated. The annual reports published up to the financial year end as at 30 June 2006 were used in the survey.

IV. FINDINGS

A. *Types and Number of Other Committees*

Based on our research, there is in total 24 other committees formed by 58% of the companies. The ESOS (Employee Share Option Scheme) committee is formed by the biggest number of companies which is, 26. This is followed by the Risk Management Committee and Executive Committee which asre formed by 23 and 19 companies respectively (Table I).

TABLE I.
TYPE OF OTHER COMMITTEES FORMED BY COMPANIES

Rank	Type of Other Committees	No of Companies
1.	ESOS	26
2.	Risk Management	23
3.	Executive	19
4.	Tender	8
5.	Finance & Investment	8
6.	Credit	2
7.	Management	2
8.	Operational & Safety	2
9.	Share	2
11.	Budget	1
12	Performance	1
13.	Transformation	1
14.	Plantation Audit	1
15.	Shariah	1
16.	Ad hoc	1
17.	Procurement	1
18.	GLC transformation	1
19.	Disciplinary	1
20.	Strategy	1
21.	Share Buy back	1
22.	Corporate Social Responsibility	1
23.	Finance & Risk	1
24.	Technical	1

In terms of number of other committees, our analysis of the individual companies found that only five companies established at least three other committees. Island and

Peninsular Malaysia took a lead by having five other committees then is followed by Bursa Malaysia, LPI Capital, Pos Malaysia and Malayan Banking with four committees (Table II). Further examination revealed that 10% of the companies formed three committees, while 15% of the companies formed at least three other committees (Table III).

TABLE II. COMPANIES WITH THE HIGHEST NUMBER OF OTHER COMMITTEES

Company	Type of Other Committees
Island & Peninsular	Management, Tender, Executive, ESOS, Risk Management
Bursa Malaysia	Risk Management, Executive, Finance & Investment, ESOS/Option
LPI Capital	Risk Management, Finance & Investment, ESOS/Option, Share Buy Back
Pos Malaysia	Tender, ESOS/Option, Performance, Transformation
Malayan Banking	Risk Management, ESOS/Option, Credit, Strategy

TABLE III. NUMBER OF COMPANIES VS NUMBER OF OTHER COMMITTEES

No of Other Committees	Number of Company
5	1
4	4
3	10
2	10
1	33
0	42

B. *Functions of Other Committees*

It is important for the management to disclose and inform investors of the functions and role of other committees in their company. Our investigation shows that not every other committee formed by a company disclosed its function. Five committees namely, the budget committee, the plantation audit committee, the disciplinary committee, the procurement committee and the GLC transformation committee have not been disclosed. The disclosure of the functions of other committees with our assessment on its adequacy disclosure is as follows:

1) ESOS/Option committee

Disclosure - The company disclosed that the terms of reference of the committee are to assist the board in the administration of the ESOS in accordance with approved by-laws, guidelines and rulings of the relevant authorities that are applicable during the period of the scheme, to recommend, establish, amend and revoke any rules or arrangement relating to the ESOS. The committee is also responsible for administering the ESOS of the Group in accordance with the objectives and regulations thereof and to determine the participation, eligibility, option offers and share allocations (based on the performance, seniority and number of years of service) as well as the employees' actual or potential contribution to the Group.

Evaluation - The first lack of disclosure is, the company in silent on which by-laws, guidelines and rulings they are referring to, and secondly, who regulates these laws. Is it the law or regulation that is administered by Bursa Securities and the Securities Commission? This information will guide the shareholders on the rules that bind the company's ESOS. We however, give a credit to the full disclosure of method of share allocations.

2) Risk management committee

Disclosure - The function of this committee includes formulating the overall risk management strategy of the company and recommending for approval any major risk financing decisions by the company. It also responsible for assisting the board in fulfilling its corporate governance, risk management, and statutory responsibilities in order to manage the overall risk exposure of the company. It is also responsible for ensuring the effectiveness of the risk management process and implementation of risk management policies in their respective companies.

Evaluation - This is only a general description, with some of the important points missing from the annual report. The company does not provides detail of what constitutes major risk financing decisions such value and credit rating. The company is also silent on what type of assistance is provided to the board and the mechanism to ensure the effectiveness of risk management implementation i.e. via report, field visit etc.

3) Executive committee

Disclosure - We found that the function of the committee is to evaluate strategic plans, decide on transactions and matters of the company's businesses which fall within their levels of authority. It is primarily responsible for making decisions on behalf of the board, based on a mandate of having the board's delegated authority in pre-defined areas. Where appropriate, recommendations are made to the board on decisions reserved for the board.

Evaluation - The function is clear, however the disclosure can be further improved, for instance the company may want to give some examples of the pre-defined areas that can be decided by the committee, so that the shareholders can ensure that highly important responsibilities cannot be delegated but can only be discussed and decided at the top level.

4) Strategy committee

Disclosure - The committee established with the aim to identify, advise and assist the board of directors and management in determining the strategic direction for the company in the dynamic industry and oversee the planning and development aspects of the group's strategies, both domestic and international projects and ventures.

Evaluation - Generally, the function is identical to that of the previous committee. However the scope is limited only to strategy. As strategy is a highly sensitive area for the company, nothing much can be disclosed by the company.

5) Management committee

Disclosure - The committee is responsible for assisting the board to operate the company's business activities efficiently with transparency and good governance, controlling the overall development of each divisional process encompassing all business activities and ensuring that the company is run smoothly and effectively. The committee monitors and ensures that the company is properly and prudently managed in accordance with each division's business plans.

Evaluation - The role is a level below those of the executive and strategy committee, as the committees work on the implementation of business level activities. It is recommended for the company to disclose further on how the committee controls and monitors the performance of company's division such as by using key performance indicators (KPI), ratios and other suitable method.

6) Tender committee

Disclosure - The company disclosed that the function of the committee is to approve tender for contract value from RM1 million up to RM10 million. Besides that, the committee is responsible for ensuring the procurement process complies with the relevant policies and requirements and considering, evaluating and approving or recommending awards that are beneficial to the company and ensuring that capital expenditure projects undergo the proper tender processes.

Evaluation - The arguable information disclosed is the band of the contract value. Since the level is between RM1 million and RM10 million, it is assumed that any contract higher than RM10 million will be decided by the board level while any contract below RM1 million will be considered by the management. What if there is a high number of contracts below RM1 million to be processed. This situation will increase the opportunity for fraud and mismanagement, so the committee should disclose how they resolve this problem.

7) Finance and investment committee

Disclosure - The primary responsibility of the committee is to review and recommend strategic investment decisions for the company, review and monitor the financial performance of the company, including budgets and monitor the investment policy and portfolio of the company. The committee also needs to recommend to the board all acquisitions and divestments of companies (excluding dormant companies) and the setting up of new business irrespective of value.

Evaluation - Again, the issue of transactions value is raised here. When a committee is given full authority without any limited value of acquisitions and divestment, it seems like a few directors have unlimited power in making decisions on the behalf of the board. This is risky because any irregularities, manipulation and abuse of power that are involved in improper evaluation of investments will cost huge losses to the shareholders if this committee makes a wrong decision.

8) Finance and risks committee

Disclosure - The committee needs to review the capital expenditure for projects, business acquisitions and investment appraisals undertaken by the company. They are also required to analyse and recommend the projects and applications of capital expenditure.

Evaluation - The function of the committee is quite similar to that of the previous committee. The disclosure is too brief, as it does not state the limit of the authority in terms of transactions value.

9) Share committee

Disclosure - The committee is responsible for regulating and approving securities transactions and registrations.

Evaluation - The information disclosed was too brief as there was no clear information on what regulations had been used as their reference, the minimum and maximum value that fall in their authority and the purpose of the securities transaction i.e. is it just for merely normal investment or for the strategic company acquisition?

10) Performance management/transformation committee

Disclosure - The committee was created to implement the performance management of the group and to operationalize the transformation in accordance with the guidelines issued by the Putrajaya Committee on Government Link Companies High Performance.

Evaluation - This is an adhoc committee that was established by government link companies purposely to carry out certain specific tasks. However, there is no disclosure on the authority level of the committee and whether the responsibility to achieve the transformation objectives as required by the government is solely in the hands of the committee. There is also no indication of the responsibility of the board as a whole and who will be accountable if the objectives fail.

V. CONCLUSIONS AND RECOMMENDATION

The purpose of this paper is to explore the formation and the level of board committee disclosure by public listed companies. We found that only half of the companies established the other board committee. In terms of function disclosure, overall, only brief disclosures were given by the company. The level of the disclosure can be improved by stating the authority or limit given, mentioning the specific laws and guidelines, clear cut off figures if the responsibility involves scrutinizing the financial figures. Future research can focus on the reason for the of lack of disclosure.

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