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The Level of Knowledge of Corporate Governance in Federal Statutory Bodies in Malaysia

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Abstract

This research examines the level of knowledge of corporate governance in Malaysian Federal Statutory Bodies (FSB). Questionnaire survey was used to test and to acquire sincere admission regarding respondents' knowledge on concept, principles and practices of corporate governance. The results demonstrate that the population of FSB is at below average level of knowledge of corporate governance, while their sincere admission is at good level of knowledge of corporate governance. There is a tendency for population to admit that they are more knowledgeable than they really are. At the same time, they place high rating on training in order to update their knowledge and practices of governance in public sector.

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1. Introduction

Corporate governance is an essential mechanism that will improve performance of organisations in private and public sectors around the globe. The effectiveness of good governance however, depends on the knowledge of the practitioners on the concept, principles and practices corporate governance. There are remarks from prominent personalities such as Dr Farish Ahmad Noor, Political Scientist and Nanyang Technology University Senior Fellow

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that said, "Malaysians lack of knowledge on the concept of governance was the root problem. I suggest that more education on the concept of governance need to be done before discussion of a code can take place." (Perdana Magazine Online, 2011) and Tan Sri Megat Najmuddin, President of Malaysian Institute of Corporate Governance that said, "Malaysia has in place the legal framework and rule of good corporate governance. However, it is still lacking in terms of implementation and creating a culture of corporate governance within an organization" (Rupinder Singh, 2013). Are Malaysians on the mark as far as governance is concerned?

Malaysia is undergoing a dramatic transformation to become a high-income developed nation by year 2020. In order to realise this Vision 2020, the government has launched Government Transformation Programme (GTP) which will accelerate the performance of public services that involves 25 ministries, 141 departments and agencies, 127 Federal Statutory Bodies and about 1.4 million employees. Since good governance will result in good performances (Gompers et al, 2001, Klapper & Love, 2004, Drobetz et al, 2004, Brown & Caylor, 2004) towards realising Vision 2020, the GTP initiative has made corporate governance in the public sector more important than ever. With an allocation of RM 230 billion in grants and loans to the public agencies for the implementation of development programmes in the 10th Malaysia Plan (2010-2015), it is reasonable to expect good corporate governance practices are exercised in these agencies in order to produce good performance. However, a pertinent question that needs to be answered is: are public sector directors and managers really lack of knowledge on the concept, principles and practices of corporate governance? This paper aims at examining the level of knowledge of corporate governance in Malaysian Federal Statutory Bodies which form about half of the population of public servants. Section 2 of this paper provides literature review while Section 3 explains the methodology, Section 4 describes the findings and analysis and Section 5 concludes the study.

2. Literature review

2.1. Concepts of Governance

The word 'governance" is derived from a Latin word 'gubernare' which mean 'to rule or to steer' (Tricker, 1984). According to Edwards, Halligan, Horrigan & Nicoll (2012), "governance is concerned with how societies, governments and organisations are managed and led. Importantly, it includes how they structure and otherwise order their affairs, make decisions and exercise power, and manages their relationships and accountabilities." Analysis of governance can be undertaken at three levels: (a) Public governance which focus on society; (b) Public sector governance focuses on government; (c) Corporate governance focuses on organisations (Edwards et al, 2012).

The Organization for Economic Co-operation and Development (OECD Principles 1999) defines corporate governance as:

"The system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance."

According to the World Bank (2012) "corporate governance refers to the structures and processes for the direction and control of companies". It concerned with the relationship among the board of directors, management, shareholders and other stakeholders.

In Malaysia, corporate governance is defined as "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 realising long-term shareholder value whilst taking into account the interest of other stakeholders (MCCG, 2001).

From the above definitions, corporate governance focuses on the structure and process used to direct and manage the business and affairs of the company with the objectives of striking a balance on:

- The attainment of the company's objectives.
- The alignment of corporate behaviour to meet the expectations of shareholders.
- Accountability and good relationship, taking into consideration the interests of shareholders, stakeholders, corporate participations and society at large.
  (Zainal Abidin and Ahmad, 2007).

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