



SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA

Corporate Governance and CR in the Innovation Economy

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“Innovation is creativity’s first cousin, it is the outcome of a thought process that serves to improve something or solve a problem.”

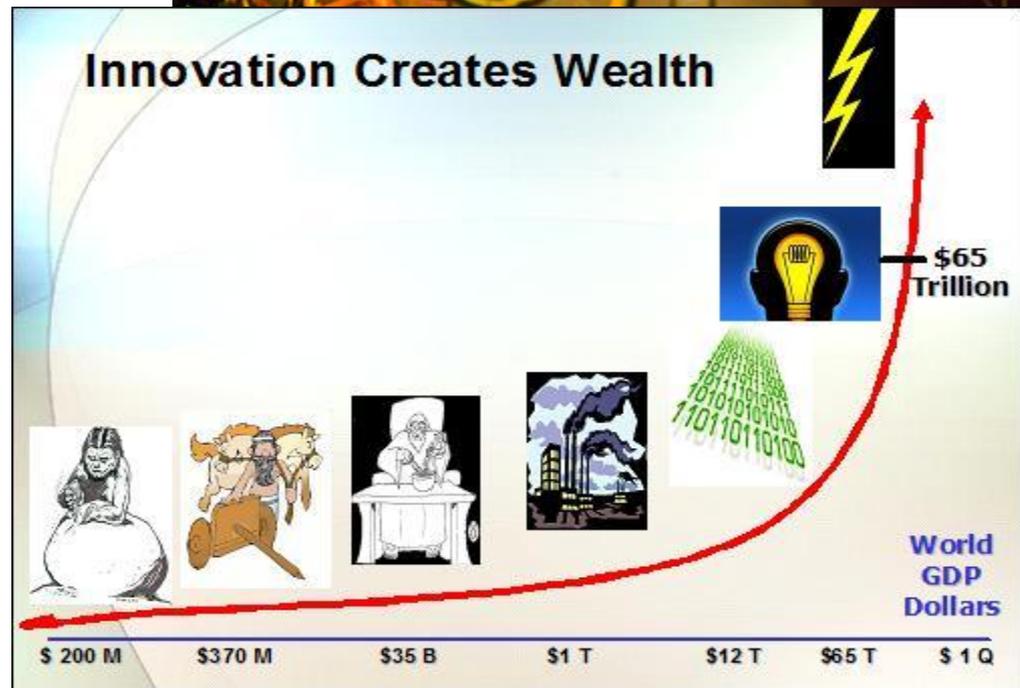
- Tan Sri Lim Kok Wing

“Creativity is thinking up new things. Innovation is doing new things.”

- Theodore Levitt



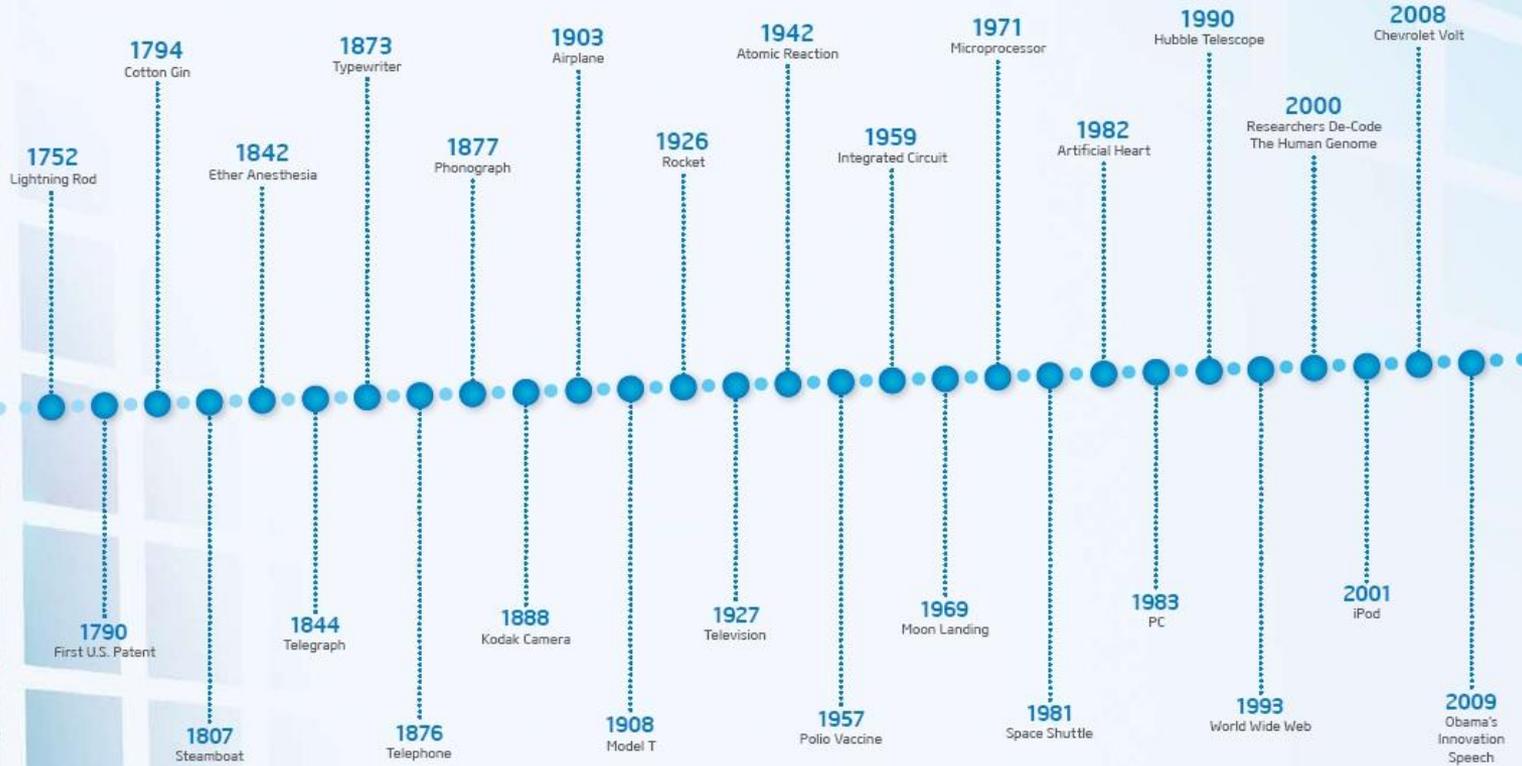
Innovation is a purposeful change to existing activities that improves economic performance.



"The New Frontier is not a set of promises. It is a set of challenges." – John F. Kennedy



INNOVATION TIMELINE



"There's a way to do it better—find it." – Thomas Edison



What is Innovation economy?

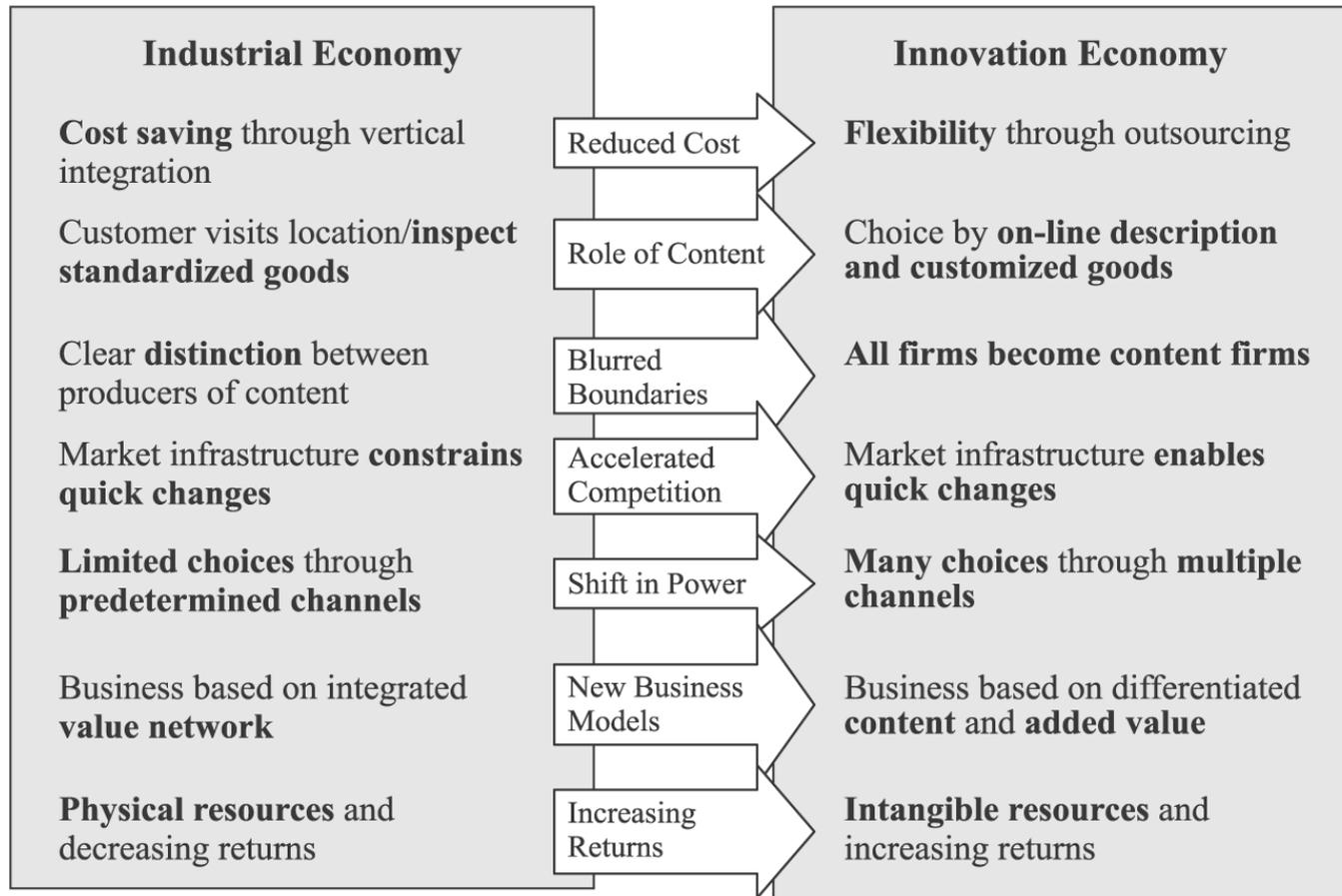
Innovation economics is a growing economic doctrine that reformulates conventional economics theory so that [knowledge](#), [technology](#), [entrepreneurship](#), and [innovation](#) are positioned at the center of the model.

Innovation economics is based on two fundamental tenets:

1. that the central goal of economic policy should be to spur higher [productivity](#) through greater [innovation](#); and
2. that markets relying on [input resources](#) and [price](#) signals alone will not always be as effective in spurring higher [productivity](#), and thereby [economic growth](#).

- *Wikipedia*

From Industrial To Innovation Economy



- *S.C.Voelpel, M Leibold & R.Eckhoff , Journal of Intellectual Capital*

- The 2009-2010 Global Innovation Index report released in March 2010 ranked Iceland as the world's leader in innovation out of 132 economies and covering 60 indicators.
- In Asia, Hong Kong and Singapore were in the Top 10.
- In terms of the financial support given to innovation - Malaysia is ranked at 5th place. However, in terms of human capital, Malaysia ranked at 33rd position; and in terms of creative output Malaysia is at 52nd position.



2010 was declared the Year of Creativity and Innovation.



Malaysia's Innovation Policy

- In Malaysia, science and technology has been featured in the Malaysian Economic Planning since 1986 when the 1st National Science & Technology Policy was featured in the 5th Malaysian Plan. In 1991, Malaysia developed the “vision 2020” blueprint to become a knowledge based economy and a high income nation.

**TENTH
MALAYSIA
PLAN**
2011-2015



- The 10th Malaysia Plan (2011 -2015) announced a new structure to streamline the governance of science and technology. Unit Inovasi Khas (UNIK) was established in 2011 to oversee an integrated innovation policy & commercialising research findings from Universities.
- UNIK is also responsible for drafting the National Innovation Policy for Malaysia, whilst a statutory organisation – the Malaysian Innovation Agency (AIM) was established in 2011 to drive the nation's innovation agenda.



The Shift To Innovation Economy

- In the innovation economy, businesses must create value for customers.
- In the US, some companies have made the fundamental shift & transformation successfully: E.g. under Jack Welch, General Electric has reframed its business and has seen performance benefits as a result; IBM has transformed from a mainframe computer company to a computing services company;
- Others such as Johnson & Johnson, L'Oreal, General Motors, Shell, Proctor & Gamble and Corning are shedding their traditional business identities and business models and emerging with new ones.



The Shift To Innovation Economy

- Canon – founded in 1937 has over the course of its 76 year history built values to its customers. The company's emphasis on technology, innovation, good governance & building of sustainable society pays off.



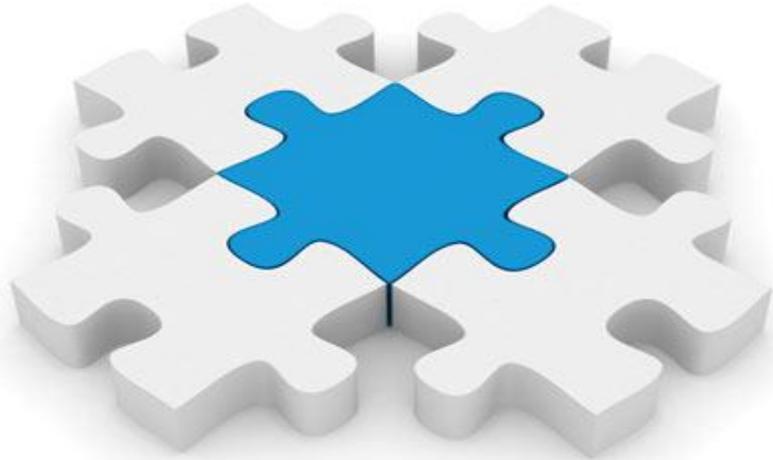
Innovations are usually measured based on how vigorous venturing activities undertaken by the companies.

The link between innovation economy and corporate governance

The shift to innovative economy poses increasing challenges for companies to practice corporate governance and in achieving its overall performance such as shareholders value, market share, human resource and its internal operations efficiency to generate value added services and products.



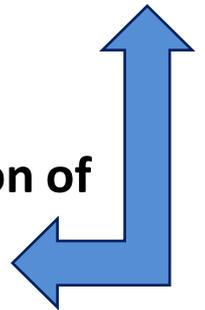
Corporate Governance In The Innovation Economy



Holistic approach to innovation.

An innovative company mobilizes the skills and efforts of its resources to build “innovative skill bases” to develop efficient processes and innovative products at a value that customers are willing to pay. Thus, creating a sustainable competitive advantage that distinguishes their products and services from other competitors.

Once value is created, the company will need to manage the distribution of the returns to its existing shareholders and other stakeholders that will generate economic growth for the nation.



Corporate Governance In The Innovation Economy



- Companies with strong venturing initiatives reflect consistent efforts to introduce new technologies, innovative products and services to remain competitive in the market.
- To deal with the economics of innovation, a theory of corporate governance must come to terms with the developmental, organisational and strategic resource allocation.

Achieving Corporate Governance In The Innovation Economy

Companies must be able to manage the risks/implications of innovation towards complying with the corporate governance requirements

Definition of Corporate Governance:

“The **process and structure** used to manage the business and affairs of the company **enhancing prosperity and corporate accountability**, with the **ultimate objective** of realizing long term shareholder value, whilst taking into account the **interests of other stakeholders.**”

Key elements:

Process and Structure

- Enhancing business prosperity and corporate accountability

Objectives

- Realizing stakeholders long term value and guarding the interest of other stakeholders.

The need to maintain corporate governance in innovative economy



*“In a well governed company, the risks of fraud and corporate collapse are reduced and there are mechanisms which reduce the likelihood of controllers enriching themselves at the expense of investors;
- It can increase the creation of wealth by improving the performance of honestly managed and financially sound companies”*

**Henry Bosch, former Chairman,
National Companies and
Securities Commission (Australia)**

Key Provisions in the Companies Act 1965 on Corporate Governance that supports innovation economy

Internal mechanism

1. Directors fiduciary duties – S.132(1A)-(1F) i.e. duty of care skill & diligence, Business Judgement rule etc.
2. Nominee directors' duties S.132E
3. Disclosure by directors-& abstention from voting S.131 (7A)(7B),131A(1)
4. Directors' monitoring & supervisory functions
5. S. 167A – System of internal control
6. Whistle blower protection S. 368A.
7. Prohibited Transaction - S.132C, 132E



**“ACCOUNTABILITY,
TRANSPARENCY,
INTEGRITY”**

External mechanism

1. External auditors' duties (s. 172A, 174(8A), (8B),(8C))
2. Statutory derivative action to promote shareholders' activism(Ss.181A-181E)
3. Injunction applications (S.368A)

**+ New
Companies Bill**

Corporate Governance transcends the concept of Corporate Responsibility (CR)

CR is a subset of corporate governance. One of SSM's statutory functions under subsection 17(d) of the Companies Commission Act 2001 (CCM Act 2001) is to promote good corporate governance. Subsection 17(d) of CCM Act 2001 states:

The functions of the Commission shall be-

(d) to encourage and promote proper conduct amongst directors, secretaries, managers and other officers of a corporation, and self-regulation by corporations, companies, businesses, industry groups and professional bodies in the corporate sector in order to ensure that all corporate and business activities are conducted in accordance with established norms of good corporate governance;

Corporate Responsibility is the subset of Corporate Governance

Companies are encouraged to strive in striking an equilibrium between the quest for profitability and creating a sustainable living environment for Malaysia;

SSM recognizes that the main reason behind the incorporation of companies and registration of businesses is to pursue profitability. Such pursuit however, can be harmonized with the pursuit of sustainability and conduciveness in the triple bottom line.

SSM'S DEFINITION OF CR:

***Commitment by corporations and businesses towards
Achieving sustainability in the social, economic and
environmental conditions in furtherance
to the pursuit of profitability***

Integrating the Contents of the New Companies Act with the Notions & Elements of Corporate Responsibility

HIGHLIGHTS

Various laws relating to CR:

Environmental Law
Employment Relations Law
Consumer Protection
Labour Laws

Ratified UN Conventions relating to CR:

UN Convention No. 8 & 11
(Elimination of
Discrimination against
Women & Children's Rights)
ILO Convention no. 138
(Minimum Age)

Bursa Listing Requirements – PLCs:

Provide statement on CR
activities in Annual
Report – Rule 9.25 read
together with Item 29 of
Appendix 9C

Khazanah Nasional Berhad – GLCs:

Silver Book: Achieving
Value through
Corporate
Responsibility

Directors' Report will cover additional matters including policies on internal control & CR

CURRENT

FUTURE

*MOVING FORWARD: CHANGING
PERSPECTIVES*

No longer can businesses stick
to their traditional ways of doing
business

In less than seven years to year 2020,
Malaysia is operating at full steam to
transform the nation in achieving the
country's vision to be a **FULLY
DEVELOPED NATION**



SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA

THANK YOU

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