

THE INFLUENCE OF SPIRITUAL CAPITAL TOWARDS CORPORATE GOVERNANCE PRACTICES IN MALAYSIA TOP 20 GLCs

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ABSTRACT

Corporate governance (CG) has attracted the attention of peoples with misconduct of recent management and corporate scandals. Crisis and the failure of listed companies have led the government to realize that increasing the CG should be the main agenda in an effort to bring back the economy on the right track and viable. However, this issue is seen to be worse when it involves companies with Government-Linked Companies (GLCs) status. Recent scandals reported by The Star and New Straits Times hit Telekom Malaysia (TM) and Felda Global Ventures (FGV). Even though the cases are still under investigation, we should view it seriously because it involves Malaysia's well-known companies and may affect Malaysian economy and credibility. The recently released Malaysian Code of Corporate Governance (MCCG 2017), the Corporate Governance Blueprint 2011 (Blueprint) as well as the Bursa Malaysia Listing Requirement seems inadequate to instill good governance practices among Malaysian companies. Since CG revolves around people and the present Codes and guidelines focus more on structural and physical setting of corporations, it is vital to alleviate the problem via humanistic approach. Therefore, the objective of this study is to examine the influence of spiritual capital (SpC) in improving the CG practices in Malaysian businesses, the GLCs in particular. SpC is classified as the vital fourth component of intellectual capital. SpC governs how the other three capitals (human capital, structural capital and customer capital) should be used. This conceptual paper shall discuss the functions of SpC in enhancing the CG practices in the GLCs. The study is expected to come up with a new model based on the attributes of SpC that also can be used by relevant authorities such as the Securities Commission, Bursa Malaysia or Malaysian Institute of Corporate Governance in coming up with new guidelines or Codes or complementing the existing ones.

Keywords: Corporate Governance, Spiritual Capital, Intellectual Capital, GLCs, Malaysia

INTRODUCTION

Globally there are numerous attempts to enhance the performance of Corporate Governance (CG). Following the corporate debacles such as Enron and WorldCom which brought financial havoc worldwide, regulators around the world responded by strengthening corporate governance through new legislations.

Malaysian government has taken steps to enhance CG and it began in 1998 with the formation of the High Level Finance Committee to conduct a detailed study on the CG and to make recommendations for improvements (Rahman, 2005). As a result, in 2000, Security Commissioner (SC) has announced the Malaysian Code on Corporate Governance (MCCG). Continuously review conducted in line with the current economic changes and it was updated in 2007, then 2012 and most recently in April 2017.

In additional, the government also introduced a Government Link Company Transformation (GLCT) Programme in 2005 for the Government Link Company (GLC) into high performance and regionally competitive entities. This shows that the government has been working seriously to enhance the implementation of CG on GLCs.

Introduction of MCCG has managed a positive impact on the CG in Malaysia. In the Malaysia-ASEAN Corporate Report 2015 reported by the Minority Shareholder Watchdog Group (MSWG)¹, Malaysia ranked second in the CG mean score for 2013; improve overall score compared to 2012. This implies the need of a comprehensive management code for the survival of a company's competitiveness.

Even MCCG has been revised several times by the SC, but the introduction of this code is still unable to curb misconduct in companies in Malaysia. Recently, we were struck by the variety of criminal breach of trust, abuse of power, corruption and many other issues involving integrity or moral offense that involves either public or private sector. But even more concerning when it involves government-linked companies (GLCs) as it indirectly using public funds or state funds. The upheaval in Sabah Water Company recently shocking because it involves a large amount; understands that cost hundreds of millions of Ringgit Malaysia. These funds should be used for the welfare of the people of Sabah, especially for clean water. Such symptoms should be curbed

¹ The Minority Shareholder Watchdog Group (MSWG) was established as a government initiative in the year 2000 as part of a broader capital market framework to protect the interests of minority shareholders through shareholder activism. It is one avenue of market discipline to encourage good governance amongst public listed companies with the objective of raising shareholder value over time. Retrieved from <http://www.mswg.org.my>

by the government because it involves a serious fraud of public funds. This leakage is detrimental to the country as it is able to inhibit the development plan for the future.

Taking the above scenario as an example, it should not happen at the moment MCCG already implemented in Malaysia. Ironically, this crisis can be assumed to occur as a result of the attitude of the authorities' especially top level management of the company who are greedy and selfish. The code used only seen as a printed paper and cannot affect their heart for not doing anything wrong. This attitude results from a lack of internal factors or known as the spiritual element. There is a clash between the will and spiritual values (such as honesty, adherence to company policy, trust and so on) against the perpetrators may be. Therefore, this study will try to assess the extent to which the spiritual capital factor can help reduce the incidence of misconduct strictly continue to apply.

PROBLEM STATEMENT

Corporate governance has attracted the attention of peoples with misconduct of recent management and corporate scandals. Public outcry over the scandal of local history as Perwaja, Renong Berhad and Technology Resources Industries Berhad (TRI) has shown that the drawback CG as a major factor contributing to the collapse of these companies (Rahman, 2013). Recent scandals reported by The Star and New Straits Times hit Telekom Malaysia (TM) and Felda Global Ventures (FGV). Abuse of power, bribe and misleading happened in the company. Even its still under investigation, we should look it seriously because it involves Malaysia's well-known company and may effect Malaysian economy and credibility.

Crisis and the failure of listed companies have led the government to realize that increasing the CG should be the main agenda in an effort to bring back the economy on the right track and viable. However, this issue is seen to be worse when it involves scandal associated companies with Government-Linked Companies (GLCs). Generally, GLC is an entity that has superiority and authority in the business world in terms of capitalization, market presence and mandate of a country's socio-political influence and to have direct contact with the government in getting a project.

With the challenge to overcome over years coming, government Malaysian regulators such as the Securities Commission Malaysia (SC) have taken steps to review MCCG 2007 and then came up with the Corporate Governance Blueprint 2011 (Blueprint), MCCG 2012 and recently issued a Code of Corporate Governance 2017 (MCCG 2017). In additional, the government, through the Putrajaya Committee (PC) which is responsible for the GLC has introduced five policy thrusts which is describe what needs to be done to enable the five key change agents of the Government Link Company Transformation (GLCT) Programme (2014) (i.e.; the Government, boards, GLICs, G20 and the PCG Secretariat) to deliver the programme's objectives. These initiatives are proof that the government is determined to streamline the CG in Malaysia.

However there are much rooms for improvements on CG in Malaysia. Recent improvements on codes and regulation put much emphasis towards the company physical structure rather than the human aspects. Despite the MCCG whose role is to provide strict guidelines on CG, incidents of corruption, misconduct and maladministration are still rampant in Malaysia. Recent corporate scandals suggested strong nexus between fraud, bribery and corruption with weak CG. CG relates to doing things right, not the numbers of rules or codes, nor the 'box ticking' to show the number of rules that have been applied but substance over form is distinguishes good governance from its poorer practices. This matter should be taken seriously by the government not only to reduce losses and improve the view of the world on the competitiveness of the GLC in Malaysia nor to become trustworthy and reliable entity.

Board of Director (BOD) not only entities that determine how the company managed to comply with any guidelines provided by the government, but also to influence the staff in determining an action to be taken against the company. Hence, BOD should practise spiritual element on them to ensure no breach occurred. Referring to a study conducted by KPMG Malaysia on Fraud, Bribery and Corruption 2013, 55% of correspondents said greed or lifestyle demand are the most common motivators for fraud, bribery and corruption. In additional, a study on Corporate Crimes in Malaysia show that top-level management, especially the directors, usually commit such crime (Omar, Said & Johari, 2016). Based on the relevant facts, misconduct usually caused by internal factor (spiritual) and it usually involves the top management of the company. Ironically, the top management should give a good example to their subordinates by applying spiritual nature such as honesty, integrity and loyalty to the organization. The key players in an organization such as the Board of Directors, the Audit Committee of the Board of Directors and internal auditors should be aware of the understanding that good business is not just about achieving financial gain required by competitive, but also the ethical and sustainable (MCCG 2012). Here we see the importance of the internal elements of the human or SpC should fill the empty space around it. Accordingly, this study is expected to reduce the gap.

In Malaysia, the Government Linked Companies (GLC) forms the bulk of the economic structure of the country and is a major contributor to economic growth through a variety of business networks. GLCs have made RM 153.9 billion worth of domestic investments from 2004 to 2014, and employed 225,050 Malaysians in 2014 (Secretariat to the Putrajaya Committee on GLC High Performance 28 July 2015). Critics argue GLC can do better than private companies because of their close relationship with the government, which gives them special advantages in terms of access to funding and engage in opportunities for growth (Ting and Lean, 2011). However, GLC also can perform worse than private companies as a result of management appointments that do not have the business acumen, and their investment decisions could be influenced by political factors rather than economic motives. The issue of unethical cultural practices among GLC lately have raised public concern and it is an issue that needs to be checked to ensure sustainable national economy.

RESEARCH OBJECTIVES

Based on the discussion on the research background and problems statements above, this study comes up with the following research objectives:-

- i. To assess the level of spiritual practices in Government-Linked Companies (GLCs) in Malaysia.
- ii. To examine the corporate governance which is driven by the spiritual capital attributes.
- iii. To explore the relationship between spiritual capital and corporate governance in GLCs in Malaysia.

SIGNIFICANCE OF THE STUDY

The success of a company depends on its employees in achieving excellence in every direction of the company; from the highest to the lowest position, each affecting the company's performance. Thus, the continuous improvement of the existing code is very necessary to ensure a company in particular and the country in general remain competitive in line with the current economic circulation that moves quickly and pressing. The impetus of this study is a desire to improve CG code making it reliable.

The majority of studies conducted previously focused on physical factors such as board composition, remuneration, and financial knowledge and so on, but few are doing research on the spiritual factor or internal factors to the CG. Therefore, this study will focus more on the SpC which is an important element in shaping the behaviour of individuals involved in managing an organization. The study is expected to contribute to the improvement of CG practices in GLCs in particular, also to other corporations in general.

OVERVIEW OF SPIRITUAL CAPITAL

SpC is closely related with the subject of religion, health and well-being. Spirituality and religion are synonyms that may lead the question whether the spirituality and religion are simply one word or not. If not, the researcher should separate the key terms between spirituality and religion. From the previous study, spirituality is hard to define because it consists of reality that transcends words or measure. Today, spirituality can directly measure and observe based on its terms (Clarke, 2009). To differentiate the spirituality and religion, the recommendation has been made between extrinsic which is the religion is meant to an end and intrinsic is religion as a way of life (Lun & Bond, 2013). But this recommendation has been argued that it is difficult and fails to capture the characteristic of spirituality and religion (Cornuel, Habisch & Kletz, 2010). The conceptual distinction between religion and spirituality has been ignored and it is not helpful to understand the differences between religion and spirituality (Beekun and Badawi, 2005).

Malloch (2010) defines spiritual capital (SpC) as an individual ethical and intrinsic spiritual value of human being that transmitted from generation to generation through religion. From another perspective, SpC is regarded as a mechanism of the IC that consists of the power, inspiration, spirit and knowledge (Beekun and Badawi, 2005). Based on the SpC Research Program (2003), they state spirituality as "the effects of spiritual and religious practices, belief, networks and institutions that have a measurable impact on individual, communities and societies". SpC is about the ethical base and the practice of business and it involve the capitalism which it is due to additional of moral and social dimensions. SpC is not concern about monetary wealth but it concerned on the making of profits by running the business (Cornuel et al., 2010).

Today, in order to reach company objective, value and the responsibilities that are carried out by the employees through their duties are improbable to reach. The reason is because the goals between employees and companies are not congruence. As a result, their performance in the company is low and probably they may take the action to leave from the company. The action that company has to take is they should develop the integrity within the employees and the company itself. Referring to Kakabadse and Steane (2010) findings, the results of the attention of spirituality at the workplace is higher among the individual and the company. Spirituality may motivate individual differences in their own and others life's through what they do at work (Dsouli, 2010). Cornuel et al (2010) stated that work is not just meant to be interesting or challenging, but that is about things such as searching for deeper meaning and purpose, living one's dream, expressing one's inner life needs by seeking meaningful work and contributing to others.

Early spirituality study in Malaysia was conducted by Ismail (2005) at Telekom Malaysia Berhad. The survey conducted by Ismail (2005) on the company's employees shows that there are 53.8% from the employees have a negative perception and claimed that Telekom Malaysia does not promote fairly and their promotion does not meet the objectivity of the company. A further 10-19% of the employees expressed their disagreement relating to the clear vision, mission, the inconsistency values of the company which shows that the company has lack of empowerment (Ismail, 2005). Based on the result, it was concluded that SpC is important in the company because it would add the value of an employee and might automatically increase the spirituality of the employees and company itself.

Based on the review of the literature, the study conducted by Ismail (2005) stated that the SpC are represented by the accountability, supportiveness, self-focus, integrity, motivation, loyalty, ethics, values, culture, team works and others. For this study, we are focusing at the internal and external behaviour of employees such as the values, culture and leadership support which committed with their performance duties.

Table 1: Summarize of the Independent Variables.

Independent variables	Author	Definition
Values	Kluckhohn (1951)	-value are crucial toward social system in order to reap positive common

		desire of the company
	Kirkman & Shapiro (2001)	-stressed that values play a practical role that related with the work processes and as an organizational commitment (job satisfaction and work performance)
Culture	Cole (2014)	-workplace culture is influenced by the organisational framework and physical environment
Leadership Support	Fry (2003)	-spiritual leadership taps into the fundamental needs of both leader and follower for spiritual survival so they become more organizationally committed and productive
	Fry (2006)	-spiritual leadership is an intangible asset that is a lead indicator of future financial performance
	Pruzan (2008)	-find that when leaders lead their organizations and themselves by drawing upon both their rationality and their spirituality, traditional success criteria are supplemented and reshaped

CORPORATE GOVERNANCE (CG)

Rahman (2011) defining CG is the system where the companies or the organization are concentrating and organised. It is a relationship between the companies' board and its shareholders and stakeholders and individual who are interested in a business as stated by OECD Principle of Corporation. It improves business expansion and corporate responsibility as stated by Finance Committee.

The meanings of CG depend on the different views and perception of people. Shleifer (1997), for example, outlines CG as the way in which related to managing money providers to corporation and corporation assure themselves of getting money made on their investment. Naidoo (2011) strongly expresses that CG concern with holding the balance between the money-based and social goals and between an individual and collective objective. It includes a collection of relationship between management and company, an organization, board of director, shareholders and stakeholders and deal with obviation and less deleterious of the conflict of interest of stakeholders. Therefore, we can understand that CG influences how the objective of company are set and achieved.

Today, the consequentiality of CG has been highlight over the world as it has been blamed as one of the fundamental courses of serious problem. The authorities in Malaysia extremely concern with respect to legitimate CG accomplishment in each company. Therefore, there have made a real effort to improve the country's CG framework for the past recent years as expresses by the Institute of International Finance.

GOVERNMENT LINKED-COMPANY IN MALAYSIA

Government-Linked Companies (GLCs) are companies that have a main objective within which the Malaysian government incorporates a direct controlling stake to appoint board of directors (BODs), senior management, also as creating major selections for the companies. GLCs compose a huge influence of the economic structure in Malaysia as they are the most suppliers of the core strategic utilities and service of Malaysia that together with water and sewerage, electricity, finance and monetary service, and public transports. GLCs today are stronger institution with well-managed balance sheets and greater regional and international presence.

Recognizing the upcoming challenges, in 2004, Malaysian government has launched a Government-Link Transformation (GLCT) Programme to ensure GLCs are always competitive and ready to face new challenges. Three underlying principles of the GLCT Programme are performance focus, national development agenda and corporate governance (The KHAZANAH Report, 2016). Under the GLCT Programme, there are 5 Federal Government-Link Investment Companies (GLICs) who are responsible for managing GLCs. The companies are Employees Provident Fund (EPF), Khazanah Nasional Berhad (Kahazanah), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH) and Permodalan Nasional Berhad(PNB). Majority shareholder or single largest shareholder in GLCs made GLICs have control and may influence in major decision making over the GLCs. G20 is a selection of large GLCs controlled by GLICs under the GLCT Programme and is used as a proxy for performance of the GLCs. The market capitalization of the GLC (G20) in 2015 has grown by 2.9 times compared to 2004 where they contributed RM 386 billion for 2015 compared to RM 133.8 billion in 2004 (GLC Transformation Programme Graduation Report, 2015).

RELATED THEORIES

Stakeholder theory is a conceptual framework of business ethics and organizational management which address moral and ethical values inside the management of a company or other institutions. Apart from shareholder of the company, who are also the proprietors of the company, different interested parties related to the company need to look after their wishes and targets. In addition, they too, make a contribution to the well-being and performance of the company. In short, stakeholder's theory is used as a basis to analyse those groups to whom the company should be responsible. A company may be defining as a series of connections of stakeholders that the managers of the company attempt to handle (Freeman, 1984).

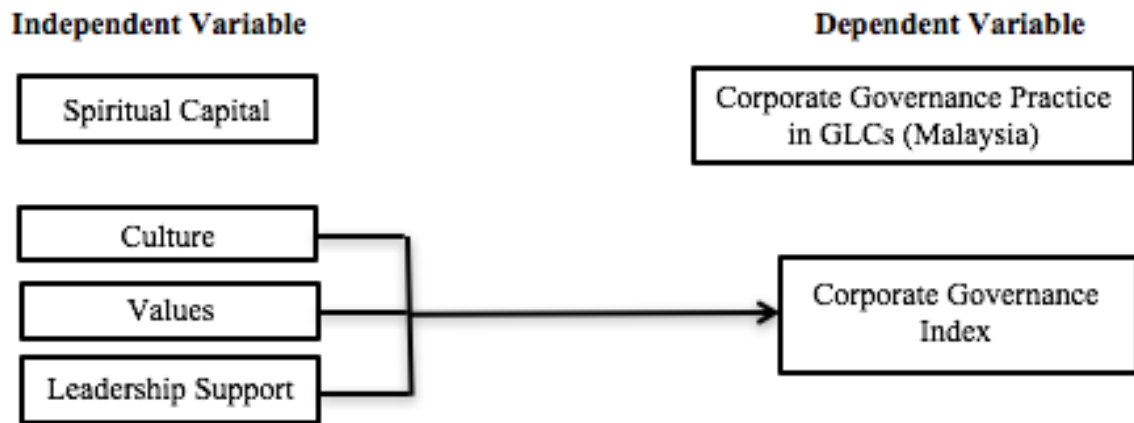
Stakeholders are labelled into two groups, which consist of primary stakeholder group and any other being the secondary stakeholders group. Primary stakeholders are those who have preserving with participations that provide contributions to the crucial survival of the company. The examples of such stakeholders are the financiers, employees, customers, governments,

communities as well as suppliers. On the other hand, secondary stakeholders are parties that are inspired via the company. They are not too crucial for its survival or not really engaged in transaction with the company directly.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Based on the literature review and theoretical discussed above, this study comes up with the following theoretical framework.

Figure 1: Theoretical Framework



RELATIONSHIP BETWEEN CULTURE AND CG

North defined culture as “communities of common ideologies and a common set of rules that all believe in” (North, 1987). Culture mobilizers’ individuals and turns them into a community with shared norms and values, where individuals make choices on the basis of their mental models. Past research found that culture is significantly has positive relationship with corporate governance. Theorist, practitioners and policy makers share the view that that culture gives impacts to the corporate governance which is ethnicity, customs, beliefs, shared, values and religion appear as primordial factors that affect effective system of corporate governance. (Stulz and Williamson, 2003) and (Litch et al., 2005) find that differences between national cultures can explain cross-country differences in corporate governance. Therefore, the study posits the following hypothesis:

H1: *There is a significant relationship between culture and corporate governance.*

RELATIONSHIP BETWEEN VALUES AND CG

Values are the organization-specific features determining the way of thinking, behaviours and responses to the events (Karadal, 2013). Personal values and interval motivation are among personal characteristics that are found in the literature to give impact on entrepreneurial orientation of entrepreneurs (Baum & Locke, 2004). The theory of Human Values assumes that the way people act or behave represent their sets of values as these values are beliefs on what is right and what is wrong to do. While, Schwartz (1992) stated that the theory of human values is the human values that will influence behaviour as values guide decisions and actions to some extent.

From the literature, an overall finding from most studies that examined the direct impacts of self-efficiency on either entrepreneurial orientation or formation of entrepreneurial firms conclude that individuals with higher self-efficiency have higher entrepreneurial orientations. A possible interpretation could be that the individuals who are having courage including honesty and discipline have higher self-efficiency to be innovative and risk taker. Thus, this research comes up with the following hypothesis:

H2: *There is a significant relationship between values and corporate governance.*

RELATIONSHIP BETWEEN LEADERSHIP SUPPORT AND CG

Leadership is about the character and skills of the leader who lead a team into accomplish missions that given to the group. Transformational leader make their team aware of the important and value of the work to be done and the leader also encourage their team members to think beyond boundaries to achieve the target. Montes (2005), Mellisa (2011) & Khalili (2016) point out that relationship between leadership and followers’ creativity is stronger when there is a high degree of leaders’ task and relations support and it creating more returns for the company. An interrelationship between them shows that the leader has the clout to influence the members of the team in doing task that given.

In addition to the ability to discipline sociology, psychology and technology, spiritual factors also necessary for effective leadership. This approach is not only able to affect the behavior of a leader to perform an action in accordance with restrictions, but it is also able to affect the others whom the leader interacts and involved in the decision making (Burke, 2006).

H3: *There is a significant relationship between leadership support and corporate governance.*

THE IMPACT OF SpC TOWARDS CG PRACTICES IN GLC'S

The result determines the influences of SpC on the performance of a Malaysian GLC's leveraged against company's performances where theoretical and empirical contributions to the literature on the influence of intellectual capital on the effect of SpC and firm's performance were most important. SpC is the effects of spiritual and religious practices, beliefs, networks and institutions that have a measurable impact on individuals, communities and societies (Liu, 2011). Furthermore, Marques (2008) & Marschke (2009) found that spiritual behavior in an organization or workplace will lead employees to become more creative and innovative, indirectly could enhanced corporate performance and benefits to the various stakeholders. Meanwhile, Abdullaha (2012) found SpC has the strongest relationship with corporate performance among other IC component. Therefore, the SpC required on all employees because they are sharing a common belief and believe that working is part of their acts of devotion to god which result in their thankfulness, commitment, loyalty, sincerity, honesty and that they are ethical and truthful in performing their duties and following the principle and tenets of good corporate governance to provide considerable benefits to the company.

H4: *There is significant relationship between spiritual capital and corporate governance practices in GLC's.*

RESEARCH METHODOLOGY

This study will be guide by research objective and it will generalize in Malaysia context. Deductive approach has been picked for this study. Deductive approach is applied to achieve the objective of the study since this study is done in view of the theory and development to test. Other than that, deductive approach endeavours to figure the theory first and after that moving from the theory, the gathered information is tried, which is done in this review (Saunders, 2011).

Mix-method has been chosen to collect the data because it may give various answers or perspectives of the research topic from respondents. Therefore, the researcher is able to study the problem in depth. Survey/questionnaires and focus group interview are the method that will be used in collecting the data. For the focus group interview, 5 executive level employees from different department and selected randomly from each company. Then, for the survey/questionnaires 20 participant (executive level) from various department of the company will be selected randomly.

Population for this study is G20 companies. The companies are chosen based on its role as a proxy for the performance of the GLCs under Government-Link Companies Transformation (GLCT) Programme. Current G20 only involves 17 companies due to various mergers, demergers and other corporate exercises over the years.

Table 2: List of G20 Companies

No.	Company	No.	Company
1	Affin Holdings Berhad	10	Malaysian Building Society Berhad
2	Axiata	11	Telekom Malaysia
3	BIMB Holdings Berhad	12	Sime Darby Group Berhad
4	Bousted Holdings Berhad	13	TH Plantation Berhad
5	Chemical Company of Malaysia Berhad (CCM)	14	Malaysian Resources Corporation Berhad (MRCB)
6	CIMB Group Holding Berhad	15	Tenaga Nasional Berhad
7	MAHB Holdings	16	UEM Group Berhad
8	Malaysian Airline Systems Berhad	17	UMW Holdings Berhad
9	Malayan Banking Berhad		

Source: GLCT Programme Graduation Report 2015.

CONCLUSION

The study is expected to come up with a new model based on the attributes of SpC that also can be used by relevant authorities such as the Securities Commission, Bursa Malaysia or Malaysian Institute of Corporate Governance in coming up with new guidelines or Codes or complementing the existing ones. It is hope that this study can provide good foundation in the future research of spiritual capital. It is hope that this study can provide good foundation in the future research of spiritual capital.

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