Introduction

Background

This Introduction to Pull-out III ("Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders") is designed to provide companies with broad guidance in making suitable arrangements to meaningfully engage and communicate with stakeholders. The Introduction also intends to provide companies with direction in implementing the Practices of Principle C in the Malaysian Code on Corporate Governance ("MCCG") and thus, should be read in conjunction with the write-ups on the individual Practices encapsulated in this Pull-out.

In an ever-changing business landscape, companies must understand the importance of maintaining and fostering good meaningful relationship with their stakeholders as they play a key role within the company’s ecosystem. Companies should recognise that their stakeholders are affected in one way or another by the companies’ actions. In this regard, directors, as stewards of the company should take responsibility to improve their communication and relationship with their stakeholders.

A company should ensure the following in fostering a good relationship with its stakeholders:

- set in place methodologies that would enable the company to identify its different set of stakeholders;
- identify the impact of different stakeholder groups towards the company’s activities and the output and outcomes of the company;
- examine the company’s business impact towards its stakeholders; and
- provide formal mechanisms for engagement and communication with stakeholders.

It is important to note that stakeholders not only receive comfort when they see the company’s leadership team present during key events such as general meetings, they also perceive the company in a positive light when there is quick and adequate response to events and crises.

In addition, companies should ensure timely, complete and accurate disclosures are made to their stakeholders and not just for the mere purpose of meeting minimum requirements. High quality disclosures allow stakeholders to form a clear understanding on the company’s state of affairs and make informed decisions.

This Introduction is set out over three sections. Section I addresses the boards’ responsibilities to stakeholders. Section II explores corporate reporting whilst Section III sheds light on the general meetings of shareholders.
Boards’ responsibilities to stakeholders

Identifying stakeholders

A company operates within a community or society where it has both internal and external stakeholders involved. The company, is dependent upon the society for resources such as the operating environment, customer base as well as skilled workers that the company requires. Companies now need to consider the impact they have on their stakeholders based on the business decisions they make. This forms an unwritten social contract that reflects the relationship between companies and the communities in which they operate typically referred to as the “social licence to operate”. It is imperative that the board first understands who the company’s stakeholders are.

The board must understand the different roles and contribution each group of stakeholder makes to the company and ensure it takes the appropriate measures to foster a good relationship with them. As owners of the company, shareholders delegate the responsibility of managing and guiding the company to the directors. Directors in turn are responsible to ensure they carry out their responsibilities based on the mandate given by the shareholders. The diagram below provides examples on the types of stakeholders usually involved in a company (external and internal):
Responsibilities towards shareholders and other stakeholders

Shareholders

Shareholders represent an important group of stakeholders of a company as they have a direct financial interest in the company and they delegate the responsibility of managing the company to the directors of the company. Shareholders perform a more reactive role in making decisions based on the actions taken by the board and management in governing and managing the company. The board must ensure that the needs and expectations of shareholders are properly understood. The relationship with shareholders should be included as part of the company’s board meeting agenda to ensure that the board is aware of the state of its relationship between the company and its shareholders.

In exercising their responsibilities towards shareholders, directors should take account of the following:

- shareholders’ rights stipulated under the Companies Act 2016, Capital Markets and Services Act 2007, Bursa Securities Listing Requirements and other relevant legislations as well as the company’s policies;
- fiduciary duties and oversight processes undertaken by the board to protect shareholders’ rights (e.g. process allowing effective participation of, and voting by, shareholders at general meetings);
- appropriate level of transparency and openness in shareholder communication;
- extent to which debate on contentious issues is embraced and prepared for (e.g. anticipating specific shareholder questions at general meetings and developing appropriate responses);
- implementation of shareholder proposals to be approved by a majority of votes;
- provide shareholders with opportunities to question and interact with board members; and
- ensure high standards of corporate reporting that provides clear and concise information to shareholders.

Other stakeholders

Companies should realise that the sustainable running of a company is not only achieved by maximisation of shareholders’ value but also by the value the company brings to all its other stakeholders (e.g. employees, customers, creditors, suppliers, business partners, regulators and policymakers and local communities).

A company that focuses on other stakeholders’ value will not undermine the importance of its shareholders’ value and in fact may provide long-term protection for shareholders’ value. In order to achieve an understanding of the varying needs of different stakeholder groups, the company has to constantly and effectively engage with its stakeholders. Effective measures to facilitate stakeholders’ communication include identifying and assessing important stakeholders, the establishment of an investor relations function to manage stakeholders’ communication and feedback, as well as practising transparent, timely and quality disclosure of information.

Apart from incorporating the welfare of various stakeholders in its business decision-making, a company should also embed stakeholder value in its long-term corporate strategies. This may be done by having a board which is diverse, not only in terms of gender, but more particularly, diverse in terms of the stakeholder group which they will represent or be concerned about. Having such an approach to corporate governance will also lead to better consideration and implementation of the sustainability strategies of the company, as the company’s objectives shall no longer be only to maximise shareholders’ value but also include all its other stakeholders’ welfare and sustainability considerations.
Communication

It is the board’s responsibility to develop and implement a communication policy which effectively articulates the operations of the company to its shareholders and other stakeholders whilst accommodating feedback from them. Considerations on such stakeholder communication are covered in detail in the write-up to **Practice 11.1**.

Feedback from stakeholders should be taken into account in business decision-making. The board should be responsible for setting the tone in the company and should manage stakeholders’ expectations. The communication policy may include the following contents:

- **purpose** – describes the purpose of the policy to promote effective communication and provide stakeholders with full and timely information about the company;
- **principles** – applies to the communication of information, including the level of clarity and reliability of information, as well as open, fair, timely and consistent disclosures;
- **point of accountability** – highlights the parties responsible for communication with stakeholders and whom stakeholders can contact, if necessary;
- **methods of communication** – sets out the types of communication by stakeholders such as telephone, mail, email, facsimile, corporate website, in person at the company’s office or via attendance at the annual general meeting (“AGM”) / extraordinary general meetings (“EGM”). Communication with stakeholders includes quarterly and annual reports, press releases and announcements; and
- **information** on where the policy or further information about the company can be accessed.

In this regard, companies may be guided by **Bursa Malaysia Corporate Disclosure Guide** that encourages prompt and timely dissemination of information to shareholders and investors. The **Bursa Malaysia Corporate Disclosure Guide** also recommends listed issuers to have in place written corporate disclosure policies and procedures (“CDPP”) and provides guidance for companies to establish its CDPP.

Other forms of communication policies include the insider trading policy, whistleblowing policy and company general meetings. The communication policy on general meetings may include matters such as purpose, notice of meeting, date and venue, conduct of meetings and shareholder participation, proxies and disclosure of proxy results, and minutes of the general meeting.

**Note:** In making arrangements to prepare, convene and conduct an AGM, listed issuers may be guided by “**Best Practice Guide on AGMs for Listed Issuers**” published by the Malaysian Institute of Chartered Secretaries and Administrators with the support of Bursa Malaysia Berhad in 2016.
Corporate reporting

Corporate reporting has been an integral part of a company’s medium of communication to its stakeholders. Generally, corporate reports include information such as a company’s financial and operational results, governance, strategy and objectives.

In producing corporate reports such as annual reports, board and managements must take into consideration the expectations of stakeholders. Stakeholders, especially shareholders and regulators, expect an increased level of transparency from companies in terms of their reported information on financial, strategy, risk, sustainability and corporate governance.

In tandem with the demand from stakeholders for improved disclosures, there has been an increased focus on the way businesses are run, with greater attention given to how businesses impact the economy, environment and society. Bursa Securities Listing Requirements outline provisions in this regard:

**Paragraph 29, Part A, Appendix 9C of Bursa Securities Listing Requirements**

A narrative statement of the listed issuer’s management of material economic, environmental and social risks and opportunities ("Sustainability Statement"), in the manner as prescribed by the Exchange. [Cross reference: Practice Note 9]

**Paragraph 6.1, Practice Note 9 of Bursa Securities Listing Requirements**

All listed issuers should ensure that the Sustainability Statement contains information that is balanced, comparable and meaningful by referring to the Sustainability Reporting Guide issued by the Exchange. In identifying the material economic, environmental and social risks and opportunities, the listed issuer should consider the themes set out in the Sustainability Reporting Guide.

**Paragraph 6.2, Practice Note 9 of Bursa Securities Listing Requirements**

In making the Sustainability Statement, a listed issuer must include disclosures on the following:

(a) the governance structure in place to manage the economic, environmental and social risks and opportunities ("sustainability matters");

(b) the scope of the Sustainability Statement and basis for the scope;

(c) material sustainability matters and –
   (i) how they are identified;
   (ii) why they are important to the listed issuer; and
   (iii) how they are managed including details on –
      (aa) policies to manage these sustainability matters;
      (bb) measures or actions taken to deal with these sustainability matters; and
      (cc) indicators relevant to these sustainability matters which demonstrate how the listed issuer has performed in managing these sustainability matters.

*Note: The above only represents an extract. Detailed provisions are contained in Practice Note 9.*
The heightened expectations of stakeholders have resulted in corporate reporting becoming more complex and voluminous by the year. To this end, Practice 11.2 of MCCG encourages Large Companies¹ to adopt integrated reporting based on a globally recognised framework. Integrated reporting provides an avenue for companies to create a clearer and concise report which would encompass details that can be tailored to meet the needs of different group of stakeholders associated with the company. The following diagram illustrates the different types of reporting that could be integrated into a single report by adopting the elements of integrated thinking in the form of integrated reporting.

How to read an annual integrated report

An annual integrated report provides extensive cross-references to other reporting publications as shown below:

**Annual financial statements**
Contains a full analysis of the company’s financial results, with detailed financial statements, prepared in accordance with Malaysian Financial Reporting Standards.

**Specific regulatory report**
Reports issued in accordance with legal and regulatory requirements such as quarterly reports.

**Sustainability report**
A report covering economic, environmental and social matters.

Integrated reporting facilitates the connectivity of information by linking factors such as strategy, available resources and performance. Integrated reporting also helps management and the board to better understand the process involved in the business and issues they face more clearly, which allows them to better articulate their business strategy (short, medium and long-term) to their stakeholders. Considerations on integrated reporting are covered in detail in the write-up to Practice 11.2.

¹ Companies on the FTSE Bursa Malaysia Top 100 Index; or companies with market capitalisation of RM2 billion and above, at the start of the companies’ financial year (defined on page 3 of MCCG).
General meeting of shareholders

Enhancing shareholder participation

Regarded as an important platform for shareholders to interact and converse with the board, general meetings are evolving with the advancement of technology. During general meetings, companies are encouraged to embrace the use of technology to facilitate the presentation and communication of relevant information to shareholders, including the directors’ report, the audited financial statements, the company’s principal activities and its financial and operational performance.

In addition, the AGM should include communication of long-term corporate objectives, strategies and plans, as well as a dialogue on governance matters between the board and management and the shareholders. For many companies, the AGM is a major challenge in terms of shareholder communication and is a potential source of both positive and negative publicity. The outcome is determined by the information communicated and by the tone taken by the board towards shareholders, which, in turn, determines shareholders’ confidence in the company and the board. Considerations on shareholder participation in general meetings are covered in detail in the write-up to Practice 12.1.

Over the years, there has been increasing calls for greater inclusion of shareholders particularly to enable those who are unable to attend in person, to participate in the general meeting process. There has been a shift from traditional proxy voting to electronic voting with many companies, particularly in the United Kingdom and Taiwan, making significant progress in this regard to facilitate voting in absentia. Considerations on electronic voting in general meetings are covered in detail in the write-up to Practice 12.3.

It is important to note that shareholder attendance and the voting process only form a part of the overall general meeting process. Shareholders’ participation may be further encouraged at general meetings by:

- setting the timing and the location of the general meeting so that it is convenient for shareholders to attend;
- ensuring the participation and availability of the external auditor to answer questions from shareholders about the conduct of the external audit, including the preparation and content of the independent auditor’s report such as the key audit matters. Shareholders attending the general meeting should be made aware of the presence of the external auditor and their prerogative to ask questions to the external auditor concerning the conduct of the audit;
- providing information to shareholders in plain and simple language, both in English and other relevant languages to facilitate easy reading and understanding; and
- utilising available communication channels such as corporate website to keep shareholders updated on material matters.

Improving directors’ participation

General meetings are an important platform for shareholders to meet and engage the board. Interaction with the board allows shareholders to hear directly from the directors on how the board has been managing the company’s affairs. This also gives an opportunity for shareholders to directly pose questions on matters such as governance, remuneration and audit to the board committee members who are involved in the respective processes. Hence, it is important for directors to ensure their attendance at general meetings so as to enable more forthcoming communication with shareholders. Considerations on directors’ participation in general meetings are covered in detail in the write-up to Practice 12.2.
In order to avoid the possibility of a painful general meeting experience, the board in building meaningful shareholders’ relationship should at the very least take into account the following:\footnote{Best Practice Guide on AGMs for Listed Issuers, 2016, Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA") with the support of Bursa Malaysia Berhad}

- the board and management should spend time attempting to anticipate specific shareholder questions and develop appropriate responses;
- the board and management should put in place consistent communication with shareholders, not just at the time of the AGM, as it allows for better anticipation of shareholders’ concerns and contentious issues;
- the chairman of the general meeting should explain the effects and purpose of the proposed resolution before it is tabled at the AGM;
- the board may avoid a confrontational atmosphere by addressing contentious issues in the annual report or in the chairman’s formal address to the meeting;
- the board should allow the respective board committee chairmen to address matters pertaining to a specific governance issue, e.g. matters relating to the assessment on the independence and performance of directors should likely be addressed by the chairman of the nominating committee;
- the chairman of the board is normally responsible for the conduct of the general meeting and should be thoroughly familiar with the general meeting agenda and meeting procedures. The chairman should develop an approach for dealing with difficult or hostile responses from the floor;
- the chairman of the general meeting should allow and facilitate discussions of matters that are relevant and practical to the business of the general meeting and important to shareholders. The chairman should not accumulate questions from the shareholders with a view to answer all the questions in one go as this practice will dilute the importance of the questions and generalise the answers;
- the chairman of the general meeting must provide reasonable opportunity to the shareholders as a whole to pose their questions on the management of the company; and
- shareholders could be invited to submit questions prior to the general meeting to facilitate discussions at the meeting. Such questions may be posted on the company’s website and addressed to the relevant email address dedicated for shareholder communication.