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## People Centric Governance Model: Conceptualizing the Pillars of Significance

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## People Centric Governance Model: Conceptualizing the Pillars of Significance

### Abstract

This article explores corporate governance issue from the perspective of peoples' governance. Using qualitative research approach, specifically, a grounded theory method, the paper explores the role of the pillar of significance in corporate governance practices. Interview was used as primary data, although document was also analysed. Analysis of the data revealed people centric governance is essential. Findings suggest that there are several pillar of significance in the corporations that provide strength to the corporate governance practices. Emerging theory suggests that the core of corporate governance lies on the people rather that the structure. The finding is useful as it impacted governance problem in such a way that the findings provides information that would enhance governance effectiveness in corporations. This study unlocked the perception that corporate governance flaws relate with corporate governance structure. This article offers originality and new insights in understudy of governance concept that commonly relate with economic perspective.

### Keywords

Grounded Theory, Qualitative Research, Corporate Governance, People-Centric Governance

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Since early 1990's, corporate governance has been an issue discussed by many, particularly practitioners and academia. Of late, there are even increasing discussion of corporate governance particularly relate with the inadequacy of the corporate governance practices. The inadequacy of the current corporate governance practices was often linked with the many corporate scandals, mostly occurred in the last three decades. Commonly critics of the inadequacy focused on the people that govern the corporations (Greenfield, 2004; Uzzaman, 2010). More often than not, people is perceive as the key to the many corporate governance flaws. Recently, the Volkswagen scandals, Toshiba Accounting Scandals were proved to this increasing concern.

Similar pattern of corporate governance discussion emerged in Malaysia. Scandals surrounding corporations such as Transmile Group Bhd, Megan Media Holding Bhd in 2005, Axis Inc Bhd and Linear Corp Bhd in 2009, Kenmark Industrial Co (M) Bhd and Sime Darby, in 2010 and the most recent the 1MDB case in 2015, were all linked to people that govern the corporations. Scholar such as Liew (2007) had voiced the concerns on lack of people centric governance culture in Malaysia. Liew (2007) pointed that the culture in Malaysia call for Malaysian to govern corporations with full integrity and honesty (Liew, 2007).

As researchers in the field of corporate governance, we were aware of the discussion and debates that the current corporate governance in Malaysia lack people centric and that there is an urgent need to improve the corporate governance practices towards people centric governance. Hence, our interests led us to explore, the concept of people centric governance. In other words, we focus to deploy the role of people in the corporate governance. Although, we found consensus among scholars (Letza et al, 2008; Liew, 2007; Uzzaman, 2010) about the importance of people; there are limited empirical evidence noted in the literature. Therefore, our paper aims to gain new insights and deepen understanding of the role of people in corporations relevant to build good governance practices.

Qualitative methodology was used to explore the concept of people centric governance practices and its impacts, identifying the key actors and how their distinctive roles are associated with corporate governance practices. Specifically, a grounded theory method was used to discover the aspect of people in governance process. Particular, Charmaz (2006) grounded theory was used as basis. The logic of adopting to using grounded theory are justified with two rationalisations, which are: (1) lack of research in exploring people as vector of corporate governance, hence developing a theory grounded in the data from the field is prior and (2) exploring the phenomenon through interpretivist point of view gives deeper insight.

The study retain the fundamental grounded theory research design which is the process of concurrent data generation and analysis (Birk & Mills, 2013, p. 10). To gain deeper insights into current practice, we used a sample of 33 in-depth interviews with participants in the field. Overall, this study extends the current literature on the role of people in corporate governance in Malaysia.

## Background

The First Code of Corporate Governance, the Cadbury Report 1991, played a major role in enabling implementation of the structure of corporate governance practices. The Cadbury Report 1991, for example, recommended points for corporate governance practices related to organizational structure and processes. The Cadbury Report 1991 played a major role in the development of corporate governance codes globally (Mallin, 2007). Subsequent to the Cadbury Report, there are other codes, such as the Greenbury Report (1995) and the Hampel Report (1998) have been developed to guide corporate governance practices. These codes have similar aims and focus: providing the structure and process of governance to enable corporations to conduct their day-to-day operations. Similar development can be noted in the three Malaysian Codes of Corporate Governance (MCCG): MCCG (2000), MCCG (2007) and MCCG (2012). Although, in general, the codes on corporate governance have made constructive improvements in facilitating effective governance structures, we observe a lack of focus on human element.

Concurrently, we observed that the collapse of corporations is frequently linked to the top management, implying the problem of governance relate with the people that navigate the governance structure. Hence, we believe that the issue with governance is not with the structure and process, but rather the people. A similar view was noted in Schrader (1993), who said the problem of corporate irregularity is not with the theoretical framework of corporate governance, but rather the people. Salleh and Ahmad (2008) also made similar claim that the focus on the corporate governance code (Greenbury Report, 1995; Hampel Report, 1998) has led to governance equitable with compliance, focusing on structure and process. Salleh and Ahmad (2008) consider that compliance is not governance. They add a further criticism that the “governance sets the boundary to govern human behaviour yet it is not governance that will ensure human to comply fully with those sets of rules” (p. 26). They claim that the rules and regulations put in place do not predict the actions or deeds for compliance. It is the people that matter because complying with the rules and regulations means meeting the requirements but does not mean doing the right thing.

We concur with Salleh and Ahmad’s (2008) statement that complying with the rules and regulations does not spark the spirit of governance. We thus support their view that it is the people in the governance systems that need focus and protection. Schrader (1993) pointed out that corporations are simply a vehicle by which human society creates premises for power. Making a similar contention, Rampersad and Hussain (2014) stated that the many implementations of corporate governance provide no protection from potentially catastrophic

ethical failures, leading to consideration of the importance of people as a key element in the governance process.

Observing the trend in corporate scandals from 2002 to date, people is to be blamed for poor governance practices. In particular, we notice that boards of directors have commonly been the actors associated with poor governance practices, followed by auditors as second in colluding in or implementing manipulative schemes. This has transformed our opinion, persuading us that equal or even more concern should be given to the role of the people.

Hence, the study focuses on two research questions: who are the pillars of significance in corporate governance and how do these pillars of significance play their part in corporate governance?

## **Literature**

### **Malaysia - Country Overview**

Malaysia, situated in South East Asia, is a commonwealth country with a population of over thirty million. Malaysia is a multicultural country. Malaysia is an emerging market. In 1999 the financial crisis hit Malaysian economy affecting the country's development (<https://en.wikipedia.org/wiki/Malaysia#Economy>). Learning lessons from the crisis, the Malaysian Government had established Malaysian Code on Corporate Governance to guide and direct corporations towards practising good governance. One of the initiatives include establishing Malaysian Code on Corporate Governance (MCCG, 2000). The MCCG (2000) recommended codes on corporate governance. Since 1999, the Malaysian codes on corporate governance have been overhauled and continuous improvements have been made to the structure and process of corporate governance with the aim of achieving a high standard of corporate governance practices among Malaysian corporations.

### **Malaysian Codes on Corporate Governance**

The 2000 Malaysian Code on Corporate Governance (MCCG) defines corporate governance 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 realizing long term shareholder value, whilst taking into account the interest of other stakeholders” (MCCG, 2000, p. 12). Malaysia has adopted a hybrid approach to corporate governance practices, which features both mandatory and voluntary governance practices. Although corporations are recommended to adopt the code in its entirety, there are requirements that have been made compulsory. The three versions of the codes are divided into two sections, Part 1 (Principles of good governance) and Part 2 (Best practices). Generally, the codes feature certain elements of governance, such as board structure, fair treatment of shareholders and protection of their rights and transparency in the disclosure of corporate financial performance. Appendix 1 provides a brief outline of the MCCG codes produced to guide corporations in Malaysia.

The MCCG were established to guide corporations, structuring mechanisms towards good governance practices. The codes established guidelines with the central purpose ideally of directing established corporate actors and innovative enterprises to enhance effective corporate governance. There has been a progressive transformation in the MCCG manifesto over the years. The MCCG (MCCG, 2000), the first code, focused on principles and best practices on structure and process that company towards achieving optimal governance practices. The Code was later revised in 2007 (MCCG, 2007) to strengthen the roles and responsibilities of the board of directors, audit committee and the internal audit function

(MCCG, 2012). Reading the codes we see there is a deeper expectation of enterprises and more stringent requirements, aimed at directing and controlling the aspects of corporate governance and aligned with the dynamic of business taking place globally.

In relation to the people factor, observing the trend in the evolution of the MCCG, there have been several significant changes, where there are stringent structure and process imposed. However, there is still lack of people focused in the codes. This statement is made based on our review of the MCCG (2000, 2007, 2012), which formed our view that the codes concentrates on structure of governance rather than significant individual who could contribute to good governance practices.

### **Corporate Governance and the Role of People**

In considering the roles of people within the corporate governance perspective it is useful to distinguish between internal and external involvement of people in achieving effective governance practice. Those involved directly, such as top management (boards of directors), frequently engage in governance structure and process. Their roles and obligations influence the effectiveness of corporate governance through decision making. Konzelmann et al. (2006) adopted a similar view when they claimed that internal and external stakeholders exert different levels of influence over the impact of governance, although their levels of commitment are mutually connected to the success of the organization. Investigating the interrelationship between corporate governance and human resource management (HRM) practices, which include consultation, training, incentive systems, work organization and managerial commitment to HRM, Konzelmann et al. (2006) found a positive relationship between employees as direct agents in the corporations and commitment to corporate objectives. They found that a form of corporate governance dominated by external stakeholders may have constraints in publicly listed companies in respect of commitment to HRM compared to privately owned companies.

The most recent development with regard to the role of people in governance in Malaysia can be seen in the work of Salleh and Ahmad (2008). They developed a conceptual framework of human governance, adapting the governance framework to optimize the role of the people in the process of achieving good governance. They predict human-centred governance practices will result in the virtues of justice, equity and fairness. Their conceptual idea of human governance forms a new perspective of governing. In many ways, we support the human governance model and concur that human governance to some extent improve governance practices. However, we also argue that Salleh and Ahmad's (2008) human governance model has several limitations. We argue that the model neglects to identify the actors involved in the model. Second, the model is based on one conceptual idea not on empirical exploration.

Researchers have signalled the importance of the people in governing effectively (Ghosal, 2005; Soltani, 2014). However, there is gap in understanding the role of people or actors in corporate governance practices. The present governance model, although it includes the roles of the boards of directors, internal auditors and external auditors in their commitment to the four pillars of governance, is limited in terms of providing information related to other significant actors that are possibly integral to and influence governance practices in the corporations. We develop the proposition that people is the component that is impetus to make good governance. It is our intention to explain the human side of governance. Particularly, our key focus is on the pillar of significant that make an effective governance.

### **Substantive Topic**

We pursue to explore the topic, people centric governance as it is essential for good governance practices. We argue that although improvements can be observed in the latest MCCG, which is the MCCG 2012, compared to the previous codes, this study considers the attention accorded the people is still limited. Hence, we felt compelled to explore who are the pillar of significance and how the pillar of significance play their role in practicing good governance. This section concludes with the notion that we did not force the topic, rather we follow the leads that emerged in the data hence, and we pursued our interest of exploring the topic based on the social reality.

### **Ethical Consideration**

The study was conducted at one of the local university in Malaysia. There is no oversight board requirement or approval request at the university however, in order to maintain and retain the ethicality of being a qualitative researcher the authors used pseudonym to protect the identity of the participants. All of the participants were informed of this stand. Further steps taken to ensure ethical research practices to protect participant's confidentiality and threat personal information in a confidential manner, the authors maintain the anonymity of the participants, hence the data is stripped off direct identifiers and there is no linkage to the participant's personal information or associates with it. To support the first author made a candidate declaration to adhere to the research rules and regulations of the institution where the author conducted her doctoral research.

### **Method**

Taking attention to the characteristics of this study, we determined that grounded theory was indeed fit to explore who are the pillar of significant in good corporate governance practices. Rationale of the grounded theory was based on the nature of the research issue, first, little discussion about people governance is available in the literature, and neither there is any theory that explain people governance. Our intention was to generate theory that explains the phenomenon of interest through exploration of the process of who and how the pillar of significance leads corporate governance practices.

In so doing, we conducted first wave of interviews, aiming to build the research questions and gain an initial understanding of corporate governance practices. At this stage, we constructed general interview questions, for example, what is your understandings of corporate governance from the perspective of the Malaysian context? Following through their view of corporate governance practices in Malaysia, we created memos that led us to the concept of people centric governance. Charmaz (2006) described this process as sensitising concepts which is finding research problem and opening research questions. Our initial memo obtained indicates that current corporate governance practices focused too much on the structure and process. Henceforth, we explore the concept further.

To be more specific Charmaz (2006) mechanism of working through the data was employed. The rationale of adopting Charmaz (2006) is due to the fact that the problem is shared by both the researcher and the researched, where exploring the people governance aspects from both views were constructed. For this, we seek respondents that shared their experience, respectively respondents that were involved in corporate governance practices such as individual who involved in constructing the Malaysian corporate governance codes, corporate governance regulators, academia who were experts in corporate governance field,

representatives from companies that be able to share their view related to the topic of interest. We interviewed respondents that could foster the reflection of their experience in corporate governance practices, hence purposive sampling is used. During the interview, we kept the conversation informal. We stop at the point where there was no new data emerged. All together we interviewed thirteen respondents from two groups; first the individual who were engaged with establishment of developing Malaysian code on corporate governance rules and regulations and individual who have experience and known as experts in corporate governance practices, such as corporate governance associations such as president of Malaysian Institute of Corporate Governance Malaysia (MICG), president of Business Ethics Association, President of the Malaysian Minority Shareholder Watchdog Group (MSWG) and academician, corporate governance consultants, audit firm, former Prime Minister and regulators respectively. Second, twenty representatives who hold company secretary, internal auditor and chief executive officers from companies selected based on snow balling techniques. They were the representatives from companies. The companies were chosen based on their ranked of practicing good governance practices. The ranking of companies was obtained from Corporate Governance Survey Report from joint study by MSWG & the University of Nottingham (2008).

Following, we explore the concept of people governance. Through a line by line coding process we soon make analytical sense of the meaning of the concept. Our initial coding helps us to create categories from the memo obtained, which guided us to further probing into the data, which bring us to the second phase of interview. Charmaz (2006) illustrates these processes as initial coding and focus coding. During the second phase, i.e. focus coding, we developed codes that are more specific such as pillar of significance which emerged in the data as the process of practicing good governance. Following through the focus coding, we developed properties and dimensions of categories. Based on the properties emerged, we conceptualised the meaning of the people governance.

## Results

Making sense of the responses to the questions from the respondents, this study discovered a pattern of meaning relating the role of the people involved to corporate governance practices. This pattern of meaning described human intervention in governance practices as significant.

### **People as the Root Cause not the Symptom**

People are the foundation of corporate governance and are fundamental to the structure and process of governance. In relation to this, the data also implied that people are the root cause of governance problems leading to corporate disaster (see Table 1). The data delineate that corporations have no capacity to act or react in making decisions; rather, it is the people that operationalize the structure and process of this nexus, indicating the power of governance is with the people. Hence, the roles of the people involved appear significant in the process of good governance. "People" in the context of this study, can be categorized individual who are involved in the process of enhancing governance in the companies. Three categories of people emerged to support the individual involves in the process of enhancing governance in the companies, there are first-order actors (principle-agency role), second-order actors (stakeholder role) and third-order actors (society contract role). The data relate first-order actors as the principle and agents that involves directly with the companies for example, board of directors and managers. The first order actors are the workforce direct towards good governance practices. Second order level of actors involve second tier group of workforce such



as corporate secretary, internal auditor and executive officers. Data indicates this group as the second level of personnel that work directly with the first order level actors in governance practices. Third order actors are the society that involve indirectly to the companies such as the public (i.e., Malaysian community at large).

**Table 1.** People as the root cause of problems

Open coding	Focus coding	Theme
People will make or break corporate governance	People as the problem	People are the root cause
We need the human element to conduct good governance  The system is neutral	Human as having key role in conducting good governance	People play a stewardship role
Governance practices depend on the people	Subject to people's conduct	Subjectivity of people's reactions although the system is good
People as the problem	Agency problem	People as the cause of governance problems
Issue of people not believing in governance	Agency issue	Agency problem
Blame game among people in control	Disparity of humans	Stakeholder issue
Uncertainty in predicting people behaviour  System is neutral  Quality of management depends on the people	People as the problem that cause governance issues	Agency problem
People's own interests affect the governance issue	People's self-interest create governance problems	Agency issue

*Source: Own elaboration*

### **Principal-Agent Role**

The data suggested a principal-agent role linked to people who are involved in the day-to-day operations of the corporations and/or the process of making decisions related to the governance of the corporations. The principal-agent aspect relates to agents from top management and monitoring parties. The data illustrate that the directors of the corporations emerged as the actors that play the agent in companies. Other agents include middle management and ancillary management, such as the internal audit committee. Table 2 illustrates the actors involved in this category and their roles in practising good governance.

**Table 2.** Descriptions of the principal-agent role

Intervention	First order actors	Obligations	Primary Role	Corporate governance Practices
Managerial	<ul style="list-style-type: none"> <li>• Top management</li> <li>- Board of directors</li> <li>• Middle management</li> <li>- Company Secretary</li> <li>- Internal Auditor</li> </ul>	Managing	Principal-agent relationship	Accountability Transparency Integrity Responsibility Fairness
Monitoring and supervision process	Audit committee Internal auditor	Monitoring		
Controlling	Owner	Controlling		

Source: *Own elaboration*

It is generally believed that top management is the key pillar of good governance. In particular, top management establishes the foundations of good governance. An excerpt from an interview illustrates this finding:

Corporations need people with high values and high integrity. Corporations must make sure they get the people to live up to these values. Doing the right thing is paramount. All this starts from the top. Then you talked about the process, so it is the people in the corporations first then the process. (Representative from company no. 11)

The people and of course the hierarchy in an organization obviously depends greatly on the top. The tone must come from the top but if it becomes a layer then the tone becomes a whisper... I think in that respect trying to set exemplary behaviour must be communicated and must be seen by all levels. (Respondent no. 13)

The analysis inclined towards the perception that the board of directors set the tone at the top and comprised the most important pillar in translating the culture and behaviour of the practice of good governance. The board of directors consists of the chairman, chief executive officer, non-executive directors and executive directors. The analysis revealed the criteria for the selection of people (right people, right function and right qualifications), in particular for the right board of directors: "We want to have a high performance culture within our organization, which means we choose the right people, right function, and right qualification." (Respondent no. 12)

The next significant actors emerge in the data was the audit committee. Audit Committee acted as supervisor in companies. Audit committee monitor the corporate governance practices in companies. In monitoring, the audit committee acts as protector in safeguarding the interests of the stakeholders and society in general. The risk of losing the trust

and confidence of the public is very much part of the concern of the audit committee in the 21st century. The data revealed that to protect the rights of stakeholders, the audit committee, together with the board and management, needs to address issues arising in the corporations. Protecting the rights of stakeholders includes any decision making that affect the stakeholders need to be taken seriously. The collaboration and partnership in making decisions supports the accountability, responsibility, integrity, fairness and responsiveness of governing practices. The data delineate the consequences of bad decision making deriving from failure in the partnership between the actors. The respondents claimed that Enron is an example of a case of a failed relationship between these actors resulted in failed governance practices.

Concerning the power of the audit committee, although it is not part of management, it should be given a certain level of authority to make decisions. The respondent from company no. 7 shared his experience of the company's audit committee, which upheld its responsibility in dealing with wrong doing against management. This is an example of the monitoring and supervisory role played by this pillar of significance. The situation was described by the respondent as follows:

They (the audit committee) not only question the management but also debate and discuss with the board of directors. For example, when management proposed something, they asked the management "How sure you that you can even are do it? You cannot even do the project in Malaysia, how can you do the project in Bangladesh?" They then asked the management to review and come back with a new proposal. (Representative from company no. 7)

The above is an example of how the audit committee can protect the interests of the stakeholders (second-order actors) and society (third-order actors) through their supervisory role in terms of ensuring responsibility, fairness and integrity. In the above case, the audit committee's concern regarding consequences that would potentially affect the third-order layer of actors triggered its obligations to act, leading to careful and correct decision making in terms of achieving good governance practices. In this context, good governance practices conformed to the audit committee's obligations towards being responsible for the decision making of the board, maintaining the integrity of its supervisory authority and being fair to the third-order level of actors.

Another pillar of significance in this category appeared to be the internal auditors. For example, there was reference to the essential position held by the internal auditor in enhancing governance practices. The internal auditors' monitoring role focuses on financial and operational audit matters, enabling them to guide the management, particularly boards of directors and audit committees, in making ethical decisions and ensuring compliant practices. Interpreted from the words of the respondents, the internal auditor is a pillar of significance for companies to improve their governance practices. The important role of the internal auditor was observed in several companies, for example:

We have a very extensive control mechanism. Starting with the internal audit function which checks and verifies to ensure everything is complied with. (Representative from company no. 2)

Apart from the internal auditor, the company secretary and ethics officers were found to be other significant pillars influencing governance practices. Both of these pillars are in the category of holding a managing role. Several participants (nos. 7, 8, & 9) referred to the company secretary as a co-actor in guiding and directing day-to-day operations within the

corporations, leading towards good governance practices, as illustrated by the following excerpts:

The board meeting should explain the issues and how they were dealt with by the board, especially when there are any different views that should be disclosed... I think this is where the company secretary should be involved. (Participant no. 8)

The company secretary is an independent person who has experience in corporate governance. A secretary should function without fear. When the company secretary attends meetings, she should not be afraid to voice her opinions. She should not have the attitude that she been paid by the board and hence must follow the flow of instruction. That is totally wrong. She should be saying to herself "I report to the board but I owe my duty and responsibility to the shareholders and stakeholders because of the role I play." The company secretary is like the chief governance officer. (Representative from company no. 2)

This study implies the role of the company secretary is significant due to their importance in the running of the governance process, advising the top management and delineating the process to the middle management. The importance of the role of the company secretary was clearly identified by representatives from companies 3, 8 and 9. One participant shared an example indicating the significance of the company secretary's role, also suggesting the company secretary should be responsible for drafting the governance practices for the company. He pointed out that the company secretary should be trained in governance matters and hence ought to be involved in the process of structuring governance practices in a corporation. As mentioned by one participant:

The role that they play certainly moulds ethical behaviour. Not every company has the same governance structure, some have more governance while others have less governance, so the company secretary is there to play a part to mould and frame governance policy. (Representative from company no. 2)

Nevertheless, there is a contrasting view of the company secretary as a governance officer. The company secretary is, in the opinion of participant no. 13, not independent and hence is not suitable to fulfil the role of governance officer. In contrast, participant no. 13 believes that the internal auditor is the perfect person to take responsibility as the governance officer.

The ethics officer emerged as other pillar of significance in the category of a managing role. The general perception of ethics officers is that in their managing function, they are important drivers in cultivating ethical conduct. As voiced by Respondent no. 2:

We need ethics officers.

The most common position in relation to ethics is that of the compliance officer. Generally, the role of ethics officers is integrated within the duties of human resource officers, internal auditors or corporate governance managers. For example, three companies in different types of business (service, financial, property) stated that compliance officers' duties included entertaining and assisting with ethical matters concerning employees or the management and board of directors. They oversee resolving ethical issues or any problems related to conflicts of interest. The following excerpts from the interviews illustrate the above points:

Probing the role of ethics officers, the necessary characteristics were identified as given in Table 3.

**Table 3.** Characteristics of ethics officers

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Characteristics of ethics officers gathered from the interview data

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- Open
  - Trustworthy
  - Professional
  - Responsive
  - Act as mediator
  - At management level e.g. internal audit, or company secretary
  - Interactive
- 

### Controlling Actors

Ownership emerged as the term associated with controlling agents. Ownership in the context of this study relates to the principal owner of the corporations, specifically referring to the shareholders. The fundamental relevance in terms of the structure and process of governance is that the shareholders have the power to make decisions.

With regard to obligations, the owner carries responsibility for the principal duties and fulfilling good governance practices. Thus, it is perceived that the owner creates a sense of responsibility for the first-order actors, who are the agents. Some respondents believe that owners influence governance practice. This finding indicates the significance of owners having a controlling role in the corporation. Once such example is as follows:

For [company name], what is probably unique today is the management chairman. His interest is linked to the shareholder interests because he is the biggest shareholder. I think this is in a way the core factor that keeps management interests aligned with the shareholders' interests. (Representative from company no. 2)

The data suggested there was association between holding large number of shares and corporate governance practices. The data emerged indicate the owner who has large shares tend to be more accountable and responsible in directing their companies.

Ancillary to this finding is the fact that the quality of the people matters. The data indicate that the quality of the people influences governance practices. Quality in the context of this study relates to the characteristics of the people. The excerpt provides support for this statement:

The quality of people who run the company is something that we cannot really regulate. We can set out the rules but the quality of management is something else, we see how great companies have collapsed. (Participant no. 6)

Furthermore, the findings show that the subjective character of the people influences the effectiveness of corporate governance, whether beneficially or otherwise. A respondent shared experiences of how corporations collapsed due to a few "bad apples" who had manipulated the system, supporting the finding that the character of the people influenced the

level of commitment to corporate governance. One important point made was that board of directors was frequently associated with the manipulations, implying that the characteristics of the board members influenced governance practices. Among several examples supporting this, the following excerpt is illustrative:

I am not saying they are doing something illegal, but most of their practices and initiatives ... they cut corners, they do not mind stretching the envelope or unethical parts of corporate governance and these are the people who are in the market structure that put pressure on governance standards. (Respondent no. 4)

An example was given by Participant no. 7, who stressed the point about people as the foundation of corporate behaviour. He spoke of trained professionals who failed to maintain their professionalism by breaching the law. Some participants (e.g., no. 1) indicated that codes are a structure developed to provide guidance; however, it is people who put the codes into practice. Participant no. 1 further argued that codes or standards will not guarantee good behaviour as it is the human factor that influences the standard of governance practices. He said that a corporation is just a shell; it is the people in the corporations that translate the actions into culture and behaviour, implying the significance of the actors in steering the corporate structure and process in achieving effective governance practices. In general, the respondents perceived that the rules are just the mechanism that guides the corporate citizen, but everything goes back to the people who obey or disobey the rules. An example is given in the following excerpt:

Governance is actually in oneself... you can only draw on rules so much. (Representative from company no. 8)

There was general consensus that rules are not the answer in practising good governance. This implies that people-centred governance rather than rule-based governance matters in the implementation of good governance practices. An important point grounded in the data is the relationship between choosing the right people and governance practices. This theme (the selection of the “right” other types of actors) appears as an element that supports governance practices, exemplified as follows:

Choose the right people – even suppliers and bankers. (Participant no.6)

Probing the issue further, the data revealed professional qualities emerging as the determinants of the selection of people. Professional qualities relate to the background, knowledge and beliefs or aspirations concerning corporate governance practices. These four elements are used as the basis for selecting those taking up managing and monitoring roles. There is also an association between professional qualifications and good governance. The respondents, based on their experience, claimed that professional qualifications, such as those held by accountants, commonly informed on good structure and process in governance practices. They found that bringing on board people who were professionally trained actors to take up managing and monitoring roles enhanced the quality of governance practised in their corporations: “[The CEO]’s background is accountancy. In fact, he is an auditor. That is what made him pursue corporate governance.” (Representative from company no. 4)

Our board composition covers almost all aspects. We need the board to be knowledgeable in order to run the company better. We have that. They have

very diverse backgrounds, for example, from finance and legal. (Representative from company no. 10)

He is a professional. He wants to make sure that certain policies are in place and that people follow them. He knows what is going on. [Name] is very brilliant. He is so involved. If you tell him something, two months down the road he still remembers. For example, he looks at the accounts and he can remember the discussion. (Representative from company no. 10)

The respondent perceived that choosing the professional background would benefit the corporations in terms of good governance. The respondents also related professional background to ethical consciousness, claiming that professionally trained actors would behave in an ethical manner and guide others to do so, hence attaining good governance practices.

### **Stakeholder Role**

The analysis revealed three categories of actors as pillars associated with good governance practices: professional actors, collaborative actors and coercive actors. Each of these categories comprises several groups of individuals. Thus, external auditors comprise professional agents as actors, collaborative actors consist of employees, customers and suppliers and coercive actors consist of regulatory and non-regulatory agents. These groups of individuals or agents influence the process of governance practices. They are obligated to fulfil expectations of good governance. Their roles and responsibilities account for good governance practices as confirmed by the corporations.

### **Professional Agent Role**

External auditors are found to be at the core in influencing companies to employ good governance practices:

The effectiveness of my job depends on the support of management and the support of the audit committee. (External auditor) We have people in the industry who are respondents sitting on committees, giving advice to the board and the supply of information is very good. (Representative from company no. 3 referring to the external auditor)

### **Collaborative Actors**

The employees, customers and suppliers are the three core collaborative actors in the data describing the stakeholder actors. One respondent described the significance of employees as the pillar of corporate governance as follows:

The core philosophy that has been ingrained in every employee in the corporations is the basis for employees of various levels to ensure the rights of stakeholders are safeguarded. (Representative No. 2)

Respondents from various companies shared their views of employees as collaborative partners in corporate governance. The participant from company no. 2 said that the company does not believe in enforcing ethics, but rather ingraining values in each individual. This includes leading by example, observing the founder's and the board's behaviour and having

high respect for others. These are aspects of governance related to integrity that are practised in the company. There are transparent procedures that the company presents to third parties who wish to conduct any business dealings with the company.

### **Social Contract Role**

Elaborating on the above, the respondents implied that society in this century differs from that in the last century. Technology, education and awareness have influenced society to react and respond to corporate misconduct. The public realized that corporations have limitations and that the impact created by corporate scandals exerts long-term damage on society globally. The long-term economic impact has taught people that they can change and voice their concerns. The following paragraphs explain the participants' views of how the three layers of actors infuse good governance practices. These findings are profound as there is transformation noted in the data in today's society compared to that of the last century. Another profound finding is that society is considered part of the process towards good governance:

Corporate governance is the manifestation of society's will because people are no longer engrossed when it comes to profit and monitoring terms. The shift of paradigm is there; they said that we want the money but it has to be done in accordance with morality. They want so called "clean money." They want what they obtain to enable them to be able to sleep at night. So the trend is there. (Participant no.4)

The analysis revealed two core components within in the category of society contract roles that have an association with and influence on good governance, namely global society and national society. Both groups, according to the respondents, have the will to the change the law, as also indicated by the aftermath of the Enron case, which led to a change in the Sarbanes-Oxley Act to include a directors' code of ethics and several other amendments. Similarly, in Malaysia, society's wishes have played a part in the newest version of the MCCG. There is evidence in the data of a shift in national governance to align with global governance requirements in enhancing governance practices.

However, the findings also show that corporate obsession with profit could possibly damage to good governance as the respondents perceived corporate scandals as tending to be profit related. As pointed out by Participant no. 4:

If you have people who are too engrossed in profit, there will be some problem with corporate governance practices. (Participant no. 4)

### **Discussion**

The analysis indicated that good governance linked strongly to people. According to the respondents, good governance is defined as steering oneself to good corporate practices. People in the context of the study means individuals or groups of individuals who are involved either directly or indirectly in the process of directing the corporations towards good governance practices. Nu Nu Htay, Salman, and Meera (2013) drew a similar conclusion that human reasoning-based theory is limited in current corporate governance theory and highlighted the urgent need to develop new corporate governance theory. Relevant to the need of the new theory, our study generated new meaning to corporate governance where it introduce people centric governance. People centric governance emerged as a concept that explain the focus on building good governance depend on the pillar of significance participation.

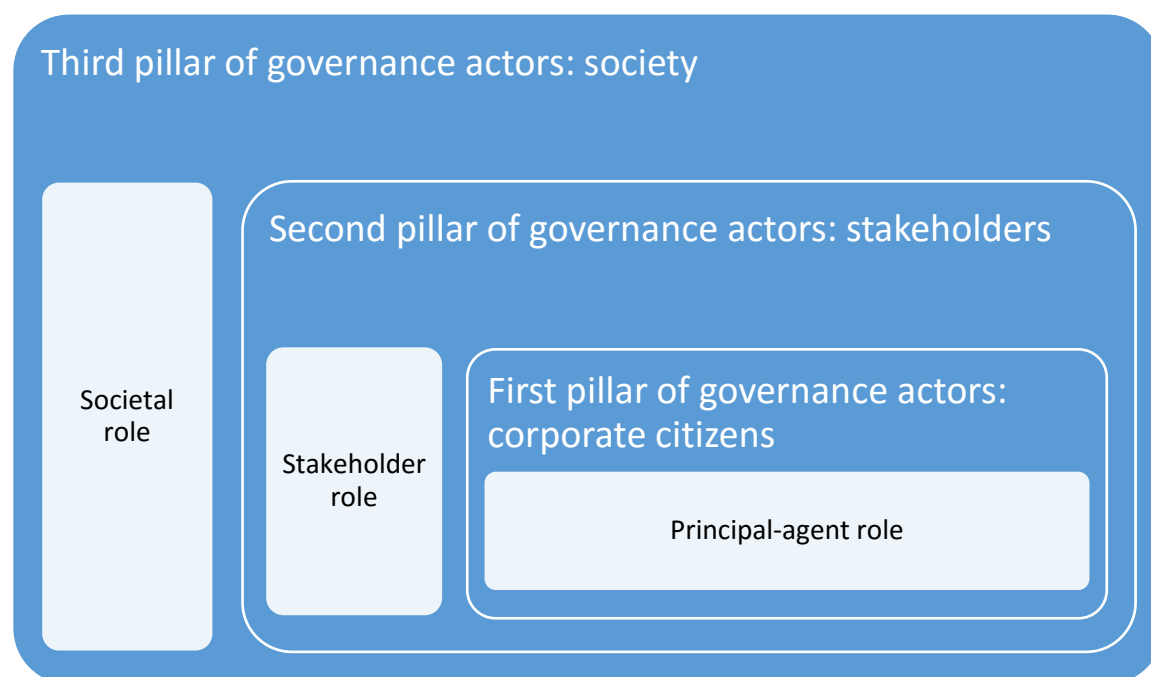


The claim that attention to people is the key to good governance has been made for many years (Greenfield, 2004), based on the many corporate scandals that indicate the underlying governance problem has a great deal to do with people rather than the structure of governance. The failure of corporations since the beginning of their establishment has been related closely to the failure of people. Greenfield (2004) pointed out that rules will never be enough and that the focus of rebuilding governance practices should lie with the people involved. Haslinda and Benedict (2009) made this point early on, stating that existing corporate governance theory will not solve the governance problem as it does not consider the human element in corporate governance and the profit-centred design of the system. Haslinda and Benedict (2009) also argued that existing corporate governance theory lacks support for the complexity and heterogeneity of corporations that are constantly changing and evolving. They proposed that an integrated theory is needed in establishing good governance practices and that this should address social relationships. They suggested a post-mortem of governance theory that would consider the cause of the problem not the causal effect of the problem.

### Conceptualizing the Pillars of Significance

Elaborating on the underlying proposition that people are the foundation of good governance, our study delineates a model (see Figure 2) that shows people as the basis for establishing the structure and process of governance. Figure 2 makes the proposition that people govern the corporations and thus the structure and process of governance practices are steered by these people. Our study discovered that people are central in the process of good governance and that they are not just a subset of the governance mechanism (structure and process), but rather the foundation of good governance. Moreover, the many corporate scandals have given rise to the perception that the problem with governance is not the structure and process but rather the people. This perception has engendered the desire for change from the perspective of human involvement.

This study has developed a model conceptualizing the pillars of significance as actors. The model as depicted in Figure 2 explains the mutual and reciprocal connections between and within the actors comprising each pillar of significance, emphasizing their various roles.



**Figure 2.** Conceptualization of the Pillars of Significance

It is important to recognize that each pillar of significance consists of actors that drive the business activities towards good governance practices. Figure 2 depicts three levels of pillars of significance. The findings of this study reveal that the effectiveness of corporate governance practices has strong a connection and engagement with each of the pillars. Each is comprised of actors working through governance practices: first-order actors (managing, monitoring and controlling role), second-order actors (stakeholder role) and third-order actors (societal role). All are fundamental to the process of achieving good governance. Company secretaries and ethics officers were seen as important groups of actors associated with good governance practices. Congruent with Yap (2003), the company secretary was claimed to be crucial in managing good governance, exerting a direct influence on management governance activities. As Yap noted, "it took two economic downturns including the recent economic crisis to awaken the corporate community to the importance of the role of a company secretary" (2003, p. 90).

However, the involvement of the company secretary has not yet been addressed in any of the three MCCG frameworks. Our findings indicate that the company secretary has a role as the internal enforcer of good governance, being proactive in implementing and managing corporate conduct. This finding contributes to expanding the list of people frequently discussed in connection with corporate governance.

The findings also indicate a transformation in stakeholder interests and stakeholder engagement, namely a shift in the long-term interest related to wealth maximization towards sustainable growth demanded by both stakeholders and society. In relation to this, our study shows that the notion of wealth maximization of the 20th and 21st centuries differs, with the latter understanding denoting sustainable business objectives. This finding contributes to a new definition of wealth maximization. Due to the recent corporate scandals, stakeholders' concern regarding the sustainability of business has increased. The rationale for this is that the many corporate scandals occurred worldwide has changed the perspective of people governing the companies. One of the major consequent of the corporate scandals was broken of trust which reliance on the people that govern the corporations. Consequently, people became the problem in the system and that people who needs the attention.

Soltani (2014) provide empirical evidence of the link between mistrusted people and lack of ethical tone at the top and governance practices. Soltani's (2014) study demonstrates the possible major causes of corporate failure, which include poor ethical climate and lack of commitment to ethical principles. Specifically, it cites "being" as the problem that causes corporate blunders in terms of egoism, abuse of power and the influential and authoritative position of CEOs.

This study finds the problem of "being" could be resolved with the introduction of monitoring and supervisory associations, such as audit committees. More important is the discovery of other governance actors to provide a supporting role as "being", equally involved and crucial in translating good governance practices, namely ethics officers and company secretaries. In this sense, this study aims to demonstrate the relevance of the principal-agency role in generating good governance principles. Stakeholders and society are the other two groups depicted as fundamental in carrying through good governance practices. Institutional investors emerge as key stakeholders, viewed as the dominant players in the financial markets and fulfilling a monitoring role. Hence their involvement in governance is crucial.

The findings also extend the theoretical foundations of governance, indicating that social contract theory should be integrated to support the establishment of good governance and implying the incompleteness of agency theory. Abdul Rahman (2006) asserted that single theories of governance, such as agency theory, although providing important insights into the process of good governance, to some extent underestimate the complexity and changing phenomenon of social reality, giving rise to the need for a search for new perspectives to provide a more complete theoretical explanation of the 21st century governance model.

It is apparent that in accounting for good governance people are the core element and the responsibility of stakeholders should go beyond wealth maximization as interpreted in present terms. A similar assertion was made by Cooper (2004), who argued that the agent has a moral responsibility to other people connected with corporations. This study delineates the stakeholder role as part of the responsibility of “being”. This links to Cooper’s (2004) description of stakeholder theory, which explains the ethical perspective of the principal-agent obligation to stakeholders. Our study finds a connection between the principal-agent role and the inclusion of other people linked to the corporation in clarifying how the firm should be governed and those for whom managers are responsible.

From the perspective of the stakeholder role, this study delineate that stakeholders have voiced in corporate governance practices. In this sense, there should be reciprocity between the agent and stakeholder in making sense of governance practices. The underlying issue is who these stakeholders are and they play their part. In the context of this study, the stakeholders can be defined in layers, where the first layer involves individuals or groups directly involved in the operation of the corporations, such as employees. The second layer involves those who are directly linked by doing business with the corporations, such as customers and suppliers. The third layer involves regulatory and non-regulatory actors, such as governmental and non-governmental agencies, which influence governance either by imposing law or providing guidance.

Moreover, our study discovered that society, which relate with the localise community has implicit influence on the corporate governance practices. The many cases of corporate malfeasance have resulted in higher expectations from society, demanding higher standards of governance. Our study reveal that society has an invisible hand in influencing governance practices through its ‘society’s will’. The force of ‘society’s will’ could change the law. Society comprises both national and global governors, these being two core factors influencing good governance: national governors include Malaysian society as a whole, exerting its will, and the governor who has the legal power and is able to exercise legitimate power to establish measures for good governance. Global governors, on the other hand, are broader and it is their will that changes the social values and acceptance of corporations. Thus, societal orientation is important in guiding corporations.

This is a new finding and society as a whole has not thus far been included in codes of governance. This finding support the limitation of applying agency theory as fundamental in providing explanation to corporate governance. This study posits that social contract theory has equal explanatory power to agency theory, suggesting an implicit contract between citizens and corporations, as well as the legal and political power within society (Cooper, 2004).

## **Conclusion**

This paper has examined the role of people in corporate governance in Malaysia. It argues that there is lack of attention given to the human aspect of governance, i.e. a people-centric focus. Developing a people-centric concept of governance, the paper has discussed the role of several pillars of significance that navigate, direct and control the governance system. The findings indicate that role of people are crucial to governance and illustrate the impact of people in governing corporations. The inclusion of several pillars of significance could possibly expand the governance system to provide more equitable forms of governance practices.

The findings of this study contribute to practice in several ways: first, in developing the people-centric governance model, it highlights company secretaries and ethics officers as two new pillars of significance that should be considered in structuring governance practices. This finding is useful in the sense that it expands the principal-agent role to consider other “beings” connected to the corporation, in particular stakeholders.

This study has its limitations, namely its scope. It is set within the context of Malaysia and hence the results cannot be generalized. Moreover, although the literature on codes of corporate governance are appraised in terms of the extent to which they pertain to the human element, it is beyond the scope of this study to provide an exhaustive discussion, particularly given its qualitative nature. Due to these limitations, it is suggested that future research should consider comparative studies between countries.

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