MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M)

New Straits Times, Business Times – Thursday, 9 June 2022 **(A)**

ACCOUNTABILITY AND TRANSPARENCY

DIRECTORS' REMUNERATION

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ON June 1, Magna Prima Bhd announced that Tan Sri Adzmi Abdul Wahab has resigned as chairman of the board.

Magna Prima not only lost a chairman but also a key member of its board committees.

Adzmi was also chairman of the Remuneration Committee, and a member of the Nomination Committee and the Audit Committee.

But what is intriguing are the reasons given for the resignation.

The reasons given allude to failure on the part of the company to pay directors' fees, meeting attendance allowance and passage leave since April 2020.

The announcement on Bursa Malaysia cited Magna Prima's failure in paying directors' remuneration being the source of disagreement between Adzmi and the board of directors. This is also an issue that should be brought to shareholders' attention.

Magna Prima generated RM1.3 million and RM292,736 of net profit at the group and company levels, respectively. This is compared to a huge loss of RM152.2 million and RM17.78 million in the previous year.

Given the massive losses in 2020, Magna Prima in its 2020 annual report stated that the board of directors decided to forego the payment of directors' fees, meeting allowance and leave passage allowance to ease the group's financial burden. All directors' remuneration has been suspended since April 2020.

> *Speaking truth to power is necessary when it comes to good corporate governance, especially at the board level.*

Act of empathy

There are two reasons why directors take no pay or a pay cut.

First, when the company is doing badly. This would translate to no dividends and a drop in the share price. It then becomes an act of empathy with the shareholders. The directors feel that since the shareholders are suffering, it is not fair for them to enjoy high remuneration.

But this scenario also raises an argument that directors who put in an honest day's work should enjoy the remuneration that they are contractually bound to receive. In other words, the directors put in maximum effort and if the company suffers losses, especially due to external factors, they feel that they should not be deprived of what is due to them.

Hardly ever will a board say that they are taking a pay cut due to incompetence. So, it is a balance between empathy on one side and the right to receive what is due for an honest day's work.

The second reason is that there may be employee layoffs or pay cuts. In such circumstances, as an act of empathy with the employees, the directors volunteer to take a pay cut. Again, this is an act of empathy on the part of directors.

It appears to be immoral to take full pay, or worse still, increased remuneration when your employees are suffering. That is not leadership.

Particularly repugnant is when directors draw excessive remuneration. When a remuneration becomes excessive is a matter of opinion.

But sheer gut feeling will tell us when such remuneration is excessive. Excessive remuneration when the company is doing badly while shareholders are deprived of dividends and share price accretion is a valid sore point among minority shareholders.

Nevertheless, at the other end of the spectrum, there are inspirational examples of directors of listed companies putting the company and shareholders before their own interests.

For instance, Goh Nan Kioh, the executive chairman of Mega First Corporation Bhd, forwent all his remuneration (except for the employee share option scheme in 2020) for the past five years, at least.

This was notwithstanding that the group recorded substantial profit after taxation and minority interests of RM321.3 million and RM462.3 million for 2020 and 2021, respectively, since the commencement of operation of the Don Sahang hydropower project in Laos.

Another example is Lim Pei Tiam, a non-independent non-executive director of Poh Huat Resources Holdings Bhd.

Lim, who is also a philanthropist, has waived his remuneration since financial year 2018.

There may be other examples of such inspirational acts by directors.

While we believe directors should be adequately compensated, some directors went the extra mile in their "contributions" to the company.

Speaking truth to power

It is always uncomfortable to question someone's remuneration, but minority shareholders must question excessive remuneration even if it is uncomfortable. Speaking truth to power is necessary when it comes to good corporate governance, especially at the board level.

This is made difficult when the power on the board is the major shareholder director or a loud domineering director.

Given the Asian feudalistic mindset, it is not always comfortable to speak truth to power — and this has led to many a corporate downfall.

In the spirit of accountability and transparency, directors should explain when questions regarding their remuneration arise.

A remuneration framework sure helps.

The writer is chief executive officer of Minority Shareholders Watch Group