MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No. 524989-M)

The Star, Starbizweek- Saturday, June 29th 2019 **(C)**

Institutional shareholders flex their muscles

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SHAREHOLDERS, especially institutional ones, are beginning to flex their muscles on the remuneration of boards of directors – something quite rare in corporate Malaysia previously.

This week, major shareholders of FGV Holdings Bhd voted against its directors' remuneration and perks at a five-hour AGM.

The shareholders that voted against the resolution were the Federal Land Development Authority with 33.7%; Koperasi Permodalan Felda Malaysia Bhd, which owns 5%, and Lembaga Tabung Angkatan Tentera (LTAT), which has a 1.25% interest in the plantation group.

LTAT, in defending its action, said FGV directors' pay packages should commensurate with the plantation company's current state of affairs and prospects.

Minority Shareholder Watch Group (MSWG) chief executive officer Devanesan Evanson says shareholders now are more prepared to articulate their displeasure and hold boards accountable.

"Gone are the days when institutional shareholders will quietly sell their shares and slink away when they are unhappy.

"They are showing they can and will flex their muscles when they are not happy with the board's self-discipline," he tells *StarBiz Week*.

On its part, he says the watchdog group will continue to play its role in voicing out the interests of minority shareholders and play a persuasive and influencing role in promoting good corporate governance.

In the past, institutions tended to have "cosy ties" with board members because cross-shareholdings were commonplace. This created a network of interest that hindered rocking the boat, much to the disadvantage of minority or individual shareholders. However, shareholders have seen the value of their equity investments being slashed because of volatile stock markets due to trade tensions and stymied growth outlooks.

"When the company is making losses and/ or not performing, this is reflected through low share prices and reduced or no dividends. It is unconscionable that in such circumstances, the board/management should enjoy disproportionate remuneration," says Devanesan.

FGV's board of directors were paid RM5.7mil in financial year 2018.

Out of this, non-executive chairman Datuk Wira Azhar Abdul Hamid received nearly RM2mil, of which RM600,000 was for being board chair.

This is about five times more than the average RM120,000 received by a normal board member. Typically, a chairman of a board earns a two-to-2.5 times ratio, notes a retired senior consultant who was once attached with a management agency.

However, he reckons this may not be the fault of the FGV board.

"We have to be mindful that the board did not ask to upgrade their board fees. It is based on an annual fee structure that has been preset. The question is, who set up such a board fee structure?"

According to him, if shareholders are unhappy with the performance of a company, they should not re-elect the board of directors.

"Like in a company, if it sinks into the red, it can't expect to cut employee salaries...maybe there would be no bonus."

He reckons that it is now more important for independent directors to step up their efforts to fulfill their fiduciary duties in their internal monitoring role.

"Being independent, they should weigh in objectively with their unbiased views at nomination and remuneration committees or the full board."

Smaller companies have also not been spared scrutiny on board remuneration.

In February this year, two substantial shareholders, collectively holding a 14.01% stake in ACE Market-listed Peterlabs Holdings Bhd, reportedly looked to oust seven board members who were seen to be drawing high salaries in relation to the size of the firm. However, that bid failed.

In Singapore, troubled water treatment company Hyflux's large remuneration paid to its CEO Olivia Lum was queried by investors recently. In India too, recent regulatory changes have focused on directors' remuneration.

Back home, following the 14th general election, the remuneration of government-linked companies (GLCs) has come under the microscope, following a call to review the role of these entities.

The argument that backs this notion is that the risks a GLC director and an entrepreneur director take are different.

"If a GLC director does not perform, it is either the government or the unit holders (for unit trusts) or employees (for pension funds) who suffer.

"If entrepreneur-driven companies lose money, the entrepreneur suffers – they have skin in the game. This reality must be recognised and accordingly compensated," says MSWG's Devanesan.

That said, determining the right remuneration is a subjective evaluation.

In FGV's case, Koperasi Permodalan Felda has come out to say that the company's directors should only be paid half of the proposed remuneration fees. Other shareholders would have their own views on what is an acceptable remuneration figure, say observers.

Even so, Devanesan believes that shareholders will be able to recognise what is an unacceptable board remuneration.

"It is not about revamping the remuneration composition, but about the total remuneration (which includes benefits-in-kind) that you take from the company in the context of the company's performance."

But one argument that often crops up is the perceived conflict of interest of the remuneration committee. This committee recommends the remuneration for the other directors of the board, while the other directors of the board have to determine the remuneration of the remuneration committee directors – a case of 'you scratch my back and I will scratch yours'.

The antidote to this, Devanesan believes, is increased shareholder activism which includes defeating unpalatable remuneration resolutions at the AGM as was the case with FGV.

"If self-discipline at the board level does not take place, then market discipline through the ballot at the AGM will take place," he reckons.

He says wherever possible, boards should be able to justify remuneration through peer comparisons. Where local peers are not available, regional peers may be used but suitably adjusted for national socio-economic factors like standards of living. These measures provide a sense of 'moderation' when deciding on directors' remuneration, says Devanesan.

Short-term gratification, he says, is a risk.

While the easiest way to show profits is to slash manpower costs indiscriminately, the negative effects of such an action will only be felt in the longer term when the incumbent executive directors are no longer around and have collected their short-term performance remuneration.

He points to two remuneration features introduced in the banking sector that can address this.

One is staggered remuneration by way of an ESOS or share grant schemes. The other is the claw-back feature, which essentially means to get back remuneration earned by way of corrupt or unethical practices.

Still, consultants concur there is no one size fits all when it comes to directors' remuneration.

What is lacking in the conversations today, some argue, is whether we are hiring the right people.

"In the case of GLCs, he says if the professional managers are expected to perform just as good if not better than non-GLCs, would the talent in the market be willing to work below the market rate?" he asks.