INVESTOR PROTECTION COMES FROM CULTURE, NOT A RULE BOOK

“GREED is good” says Gordon Gecko, a fictional character from the movie *Wall Street*.

It represents a culture from those times, and it may have inspired quite a few. Fast forward through the global bubbles sparking off a number of crises since, and we’ve seen regulators around the world setting increasingly stringent rules.

The fallout of this is that developed markets set the pace – if they decided it was bad for them, they wanted the rest of the world to follow suit. It was most prevalent in the 2008 financial crisis, leading to the recommendation or imposition of a number of dogmatic rules that aren’t necessarily applicable in the local context.

In short, policy makers from those times acted from a base of fear, and threw the rule book at the market expecting compliance to bring a measure of sanity. As we now know, it didn’t quite work.

Building investor protection is not just about setting ever-tightening conditions. For front-line regulators to get a wide variety of players to internalise a set of actions, they need a little more.

Participants need to believe – they need to see it working, delivering results and creating social acceptance. In economic terms, they also need to see a demand for it before they supply it.

We lead these efforts by example, moving on three fronts – corporate governance, board effectiveness and investor education. These are the three areas we focus on to stoke the right fires. Culture can be thought of as a social movement – once it starts moving in the right direction, it continues to snowball, and pull in more believers.

The combination of these efforts are designed to build trust and empowerment. Trust is a valuable asset for any corporation. It flows across the organisation, creating better efficiencies and encouraging productive behaviours. Trust can be created through the dynamic of the demand and supply of information.

We work to ensure corporations provide the supply – and it has to be timely, open and transparent. We buffer the capacity and capability of the corporations by nudging boards forward, as well as simultaneously drive demand by educating investors on its importance in valuing their investments.

Corporate governance also develops trust through carefully selected principles that serve as a foundation to guide ethics that lead a culture. We do recognise the market’s distinct needs and therefore, have adopted a differentiated approach.

For the top 100 PLCs the focus is on elevation – of their disclosures and practices, whereas for the mid and small cap PLCs we aim to help them strengthen their foundations in risk management, internal controls and effectiveness of audit committees.

This process can be likened to change management. There needs to be consistency to mould and shape before it takes a new, permanent form and becomes sustainable. It also benefits the market when seen from a broader and forward-looking perspective.

For example, investor protection is also delivered by raising the overall quality of the market's composition – and that is done by helping build more high-performance corporations. By setting required practices that push them forward, we help build a better market.

One of the ways is through driving sustainability reporting. The idea is to get the true value of sustainability into the cultures of both corporations and investors. With a little help, they can see how sustainable thinking drives operational efficiencies and develops competitive advantages through new market opportunities and improves brand perception.

Why do we think that we need to look beyond just setting rules – and look toward culture to drive improvement? As we have seen in the past, it's impossible to regulate something into existence. In the past, regulations were typically designed to respond to symptoms. But it can only rattle the cage of the existing culture – which is immeasurably stronger than any rules.

Protections are best strengthened by building a culture that has goals, incentives and rewards which align with a broader economic perspective that delivers a greater good. This is not about altruism. This is simply economic logic that runs in a sequence. When companies are enabled and required to look beyond their backyards to benchmark against and compete with the best, they develop the self-sustaining power to remain relevant and profitable.

If these make up the majority of the corporations on the market, we end up serving investors. They will have a true diversity of choice, and with the appropriate education, they are empowered and therefore confident investors – the kind who drive liquidity across the entire ecosystem.

Understanding the link between culture and regulations requires a broader and braver view, but it also provides a greater good. The long game is to see an entire nation which visibly benefits from an open economy through collective responsibility – a place where everyone is emboldened to take an active stand in fuelling a positive culture instead of expecting policy-makers to drive progress.

Open to change

At Bursa Malaysia, we have also been developing a culture of our own. It is marked by an increasing openness toward change, of driving deeper understanding of our constituents and the region surrounding us and an absolute focus on identifying opportunities and capturing value. These nuances have the ability to generate the power and the effect of a positive market culture. That's a big part of having a developed market mentality – as the term suggests, it starts in the mind. And from there, just as it is with any strong culture, it becomes a flame that we nurture and carry forever.

About Datuk Seri Tajuddin Atan

Datuk Seri Tajuddin Atan is the chief executive officer of Bursa Malaysia. A seasoned banker before taking on the exchange's leadership role, he believes that innovation and creativity can tackle the fundamental changes facing nations, businesses and the capital markets of today.