

Malaysia's "Corporate Directors Training Programme" As an Example of Senior Executive Training: Suggestions for Specific and General Improvements with Insights from Knowledge Management

Ei Sun Oh^a, Madeline Chai^b and Ei Fun Oh^b

^a*Working Group on Emergency Telecommunications
No. 15, Lorong Angsa 12, 88300 Kota Kinabalu, Sabah, Malaysia
Tel : 088-233808, Fax : 088-238606, E-mail : ei.oh@ties.itu.int*

^b*timely @ the training group
Suite 2, 2nd Floor, Damai Plaza 3, 88300 Kota Kinabalu, Sabah, Malaysia
Tel : 088-219673, Fax : 088-238606, E-mail : cmadeli_77@yahoo.com*

ABSTRACT

Malaysia's Corporate Directors Training Programme (CDTP) aims to increase the awareness of company directors towards good corporate governance. In this paper, observations will be shared and suggestions for improvement (partly based on insights from knowledge management) made on both the overall structure of CDTP and specifically its corporate governance component, so that the participating directors may more readily immerse in the subjects. The paper's discussion also shed lights on the lack of proper corporate information and knowledge management in Malaysia. It is proposed that the corporate-governance module be redesigned into three smaller units emphasizing both principles and practices. Moreover, the CDTP course materials should be shortened and include exercises and evaluation. It is envisioned that the revamped CDTP will more effectively achieve the goal of fostering a more healthy business environment in Malaysia.

Keywords

Corporate governance, corporate directors training programme, best practices, corporate knowledge management

1.0 INTRODUCTION

In 2001, the Companies Commission of Malaysia (CCM) introduced a training course held throughout Malaysia called Corporate Directors Training Programme (CDTP). CDTP was supposed to be

attended by company directors as well as those who would soon become directors. Since then, more than 70,000 out of more than 850,000 company directors from both inside and outside of Malaysia have attended the course. The Malaysian Minister of Domestic Trade and Consumer Affairs has also announced recently that legislation is being prepared to make the course mandatory for all company directors in Malaysia.

Among the topics covered in CDTP is corporate governance, which has come under spotlight lately owing to the much publicised corporate scandals both within and outside Malaysia. In fact, as De Geus (1995) pointed out, a company needs a higher level of skill in dealing with a changing environment, as it may be argued that the current Malaysian business environment is just such a changing environment, where knowledge of good corporate governance practice is increasingly crucial for corporate survival. In addition, it has also been recognized that the ability of organisation to compete will depend increasingly upon their ability to compete, develop new knowledge, and create maximum market value for the knowledge (Finerty, 1997; Stonehouse and Pemberton, 2000).

In the sections below, the authors, including a frequent CDTP lecturer and a course participant, will share their observations on CDTP in general and corporate governance in CDTP specifically, and suggest some ways and means for improving both the overall course structure as well as the specific coverage of corporate governance in CDTP, such that the course may be even more

relevant to and readily accepted by the participating directors.

2.0 OVERVIEW OF CORPORATE DIRECTORS TRAINING PROGRAMME

Presently, CDTP is conducted over one and a half day. It is made up of six modules, each to be delivered over one and a half hour. The modules are (i) the duties and responsibilities of company directors (Companies Commission of Malaysia, 2001a); (ii) law and practices of company meetings (Companies Commission of Malaysia, 2001b); (iii) common offences committed by company directors (Companies Commission of Malaysia, 2001c); (iv) economic crimes in Malaysia (Companies Commission of Malaysia, 2001d); (v) corruption: offences and their prevention (Companies Commission of Malaysia, 2001e); and (vi) the importance of good corporate governance (Companies Commission of Malaysia, 2001f). The issue of corporate governance is primarily covered by the last module (Companies Commission of Malaysia, 2001f) but also part of the first module (Companies Commission of Malaysia, 2001a). This section will briefly introduce the subject matters covered in the first five modules of CDTP (Companies Commission of Malaysia, 2001a, 2001b, 2001c, 2001d, 2001e).

2.1 Duties and Responsibilities of Company Directors

The first CDTP module (Companies Commission of Malaysia, 2001a) mainly reminds directors of their fiduciary duties to act in the best interest of the company in which they serve as directors. Directors' fiduciary duties include the following: (i) to act in good faith; (ii) to exercise power properly for proper purpose; (iii) to avoid conflict of interest; (iv) to retain discretion of future directors; (v) to act with care, skill and diligence; and (vi) to prevent the company from insolvent trading.

2.2 Law and Practices of Company Meetings

The second CDTP module (Companies Commission of Malaysia, 2001b) covers various types of meetings, including those legally required, which are typically held in Malaysian companies. They include board of directors meetings, general (shareholders) meetings, committee

meetings, statutory meetings and "class" meetings. The module sets out the various rules and regulations governing company meetings, including the various requirements of general meetings, such as convening, notice, quorum, etc.

2.3 Common Offences under the Companies Act 1965 Committed by Company Directors

The third CDTP module (Companies Commission of Malaysia, 2001c) is usually delivered by a CCM officer who enumerates those offences. Some of the more common offences are such as non-holding of annual general meeting or non-tableting of accounts at the general meeting, non-submission of company's annual return, failure to keep company's accounting records, directors' conflicts of interest with the company, false or misleading statements, etc.

2.4 Economic Crimes in Malaysia

The fourth module (Companies Commission of Malaysia, 2001d) is usually delivered by a police officer who first defines economic crimes and shows the trends of these crimes in Malaysia. These crimes, often encountered in a business setting, are such as bank frauds, counterfeit currencies, frauds involving securities, credit card frauds, etc. The elements of the crimes, together with their punishments, are typically spelled out, ending with some useful hints as to how to prevent or mitigate these crimes.

2.5 Corruption: Offences and Their Prevention

This module (Companies Commission of Malaysia, 2001e) is usually conveyed by an Anti Corruption Agency (ACA) officer. The main objective is to create an awareness amongst the directors of the dangers of corruption to society. The corruption-related offences and penalties are spelled out, together with legal obligations to report acts of corruption, as well as the protection afforded to informers.

3.0 THE STATUS OF CORPORATE GOVERNANCE IN CORPORATE DIRECTORS TRAINING PROGRAMME

In CDTP, as mentioned above, the subject matter of corporate governance is covered by both the first – "duties and responsibilities of company

directors" (Companies Commission of Malaysia, 2001a) – and the last – "the importance of good corporate governance" (Companies Commission of Malaysia, 2001f) modules. The latter module (Companies Commission of Malaysia, 2001f) gave a more bird's eye view of corporate governance, while the former module (Companies Commission of Malaysia, 2001a) takes a more hands-on approach to corporate governance.

3.1 The Importance of Good Corporate Governance

In "the importance of good corporate governance" module (Companies Commission of Malaysia, 2001f), corporate governance is split into two elements: (1) objective and (2) structure and process. The objective of corporate governance is said to be the enhancement of business prosperity with proper accountability of directors to stakeholders such as shareholders, creditors, government and society. The structure and process of a company, on the other hand, concern the set of rules (such as the Companies Act of 1965 and the articles and memorandum of association of the company) which govern the conducts of a company as the management and direction of a company.

A history of companies in general and corporate governance specifically is also elaborated in this module. Starting with the emergence of partnership in the 13th century, and through the formation of association with company characteristics in 17th century, business entities matured into companies in the 19th century with a series of law enacted by both the British Parliament as well as the courts. In Malaysia, in particular, company laws started with the Indian Companies Act of 1866, which evolved into the present Companies Act of 1965 (with subsequent amendments). Corporate governance is thus said to be not a new subject but an evolving system by which companies are properly controlled and managed.

3.2 Recent Interest in Good Corporate Governance

Besides, various factors have triggered the recent interest in corporate governance. They are such as investors' greater expectations on company performance, globalisation, concerns over company competitiveness, series of domestic and foreign corporate scandals and failures, and also an increasing degree of participation by institutional

investors such as pension funds. A direct relationship is said to exist between good corporate governance and investor confidence. This public interest in corporate governance has prompted actions to be undertaken by governments, including a move to disclosure-based regulation, the strengthening of accounting standards, insider trading laws, substantial shareholding laws and conflict-of-interest law as well as limitation on the number directorships. (Companies Commission of Malaysia, 2001f)

3.3 Weaknesses in Malaysian Corporate Governance

This module (Companies Commission of Malaysia, 2001f) also identifies weaknesses in the corporate governance structure of mostly public listed companies, such as untimely release of financial information and misleading announcements (both subjects pointing to the lack of proper corporate knowledge management), non-holding of general meetings, and non-disclosure of substantial shareholding. In this respect, it should be pointed out that organisational learning (which is crucial for survival of a company in a knowledge economy) is about detecting errors or anomalies (and hence weaknesses) and correcting them by restructuring organisational theories in use (Argyris and Schoen, 1978).

On the government's side, problems such as ineffective enforcement by regulators, overlapping regulations, and uncoordinated enforcement activities exist. To overcome these weaknesses and problems, various changes to the laws are being introduced. For instance, Section 99B of the Security Industry Act now requires directors and CEOs to disclose interests in listed company to the Securities Commission. The Companies Act 1965 has also been amended to require disclosure of substantial shareholding (5%).

3.4 Shareholder Passiveness in Malaysia

The passivity of shareholders has also been highlighted as another weakness in Malaysia's corporate governance system. The directors are made aware of their rights as shareholders (if they happen to also be), such as obtaining injunction, getting an order against repressive actions, going to minister for an appointment of an inspector to investigate the company, and even winding up a company. They are reminded that they should count themselves fortunate that Malaysian

minority shareholders are usually not litigious, else otherwise many of them would have been brought to court for breach of fiduciary duties due to negligence, ignorance, lack of skill and incompetence.

3.5 Malaysian Code of Corporate Governance

Participating directors are also introduced to the report of the 1998 High-Level Finance Committee on Corporate Governance, which aimed to strengthen the influence of shareholders, empower the boards of directors, strengthen regulatory enforcement, as well as promote high standards through training and education (Malaysian Institute of Corporate Governance, 2000). The key recommendations of the Committee include enhancing of disclosures in annual reports, stricter criteria for independent directors, and codification of directors' fiduciary duties, etc, with the ultimate objectives of transparency, board accountability to shareholders and protection of minority shareholders (Malaysian Institute of Corporate Governance, 2000). Two resulting efforts were the creation of the Minority Shareholder Watchdog Group and the adoption of the Malaysian Code on Corporate Governance (2000).

Indeed, the Malaysian Code on Corporate Governance (2000) is only briefly introduced in this module (Companies Commission of Malaysia, 2001f). According to the module (Companies Commission of Malaysia, 2001f), Part I of the Code (Malaysian Institute of Corporate Governance, 2000) sets out broad principles of good corporate governance which relate to directors and their remuneration (and disclosure of the latter), shareholders, annual general meetings, balanced and understandable assessment of the company's position and prospects, and internal controls. Part II of the Code (Malaysian Institute of Corporate Governance, 2000), on the other hand, sets out best practices for companies. However, the module (Companies Commission of Malaysia, 2001f) does not spell out the specifics of the Code (Malaysian Institute of Corporate Governance, 2000).

3.6 Selection of Company Directors

The "importance of good corporate governance" module concludes by emphasising that the one of the most important element in good corporate governance is the selection of the "right" directors for the company, such as those who are willing to

invest sufficient time in the company, who possess teamwork abilities, communication skills, integrity as well as understanding of their own duties and the law.

Corporate governance is also partially covered by the "duties and responsibilities of company directors" module (Companies Commission of Malaysia, 2001a) under the heading "the role and duties of independent directors", in which it was suggested that at least one-third of the board be composed of independent directors.

4.0 SPECIFIC SUGGESTIONS FOR IMPROVING THE COVERAGE OF CORPORATE GOVERNANCE IN CORPORATE DIRECTORS TRAINING PROGRAMME

Several observations could be made of CDTP, especially with regards to the subject of corporate governance. First of all, as the majority of companies in Malaysia are small to medium in size, most of the directors who attended or are supposed to attend CDTP are not directors of publicly listed companies. It is not surprising then that most of the directors are not concerned with the detailed and (to them) complicated corporate-governance requirements of listed companies. They are, again not unexpectedly, more concerned with the "hands-on" aspects of corporate governance which can enhance the performance and prospects of their companies, for, recalling De Geus (1995) above, a company needs a higher level of skill in dealing with changing environment (as is prevalent in Malaysia's business environment).

Moreover, the unilateral descriptions of laws and rules regarding corporate governance will not make an impression on the participating directors. Instead, what these directors are constantly curious and eager to learn about are the spectacular successes as well as deplorable failures and scandals that had plagued both local and foreign companies, big and small, and the (lack of) corporate-governance issues that underlie these corporate affairs. Finally, some of the directors are also keen on voicing the problems they faced in their companies and asking for tentative solutions from a corporate-governance perspective. This is not surprising as Senge's (1990) opined that the leaders' (in this case the directors') role in a learning organisation (in this case a company) is that of a designer, teacher and

steward who can build shared vision and challenge prevailing mentalities

With these observations in mind, it is hereby proposed that the corporate governance module of CDTP may be overhauled and improved. The history portion as well as the myriad listings of rules and regulations may be eliminated. Instead, the module could be roughly divided into three units. The first unit should straightforwardly provide best practices and recommended principles to be adopted by companies (to be discussed below). The second unit may apply these practices and principles in explaining the real-life, prominent corporate successes or failures, which can help to retain the participants' attention. The last unit will then allow the participating directors to engage in a question-and-answer session on corporate-governance matters which they are particularly concerned with, or for the lecturer to moderate discussions on hypothetical examples. The time length of each of these units are not specified, and should be adjusted according to the lecturer's "feel" of their respective suitability to the particular group of participating directors.

4.1 Best Practices and Recommended Principles

Various best practices and recommended principles, not the least from the Malaysian Code of Corporate Governance (Malaysian Institute of Corporate Governance, 2000), could be the subjects of the first unit in the corporate-governance module. For example, the indispensable role of the board of directors to the proper functioning of a company should be highlighted. The board is responsible for setting the corporate objectives and reviewing and monitoring their implementations. It should also supervise management and review and implement sound financial control systems and risk management measures of the company. These recommendations are in line with Senge's (1990) opinion above that leaders' role in a learning organisation as designer, teacher and steward who can build shared vision and challenge prevailing mentalities.

4.2 Transparent Procedure for Board Composition

For effective execution of the responsibilities of the boards of directors, board appointments should also be transparent and be carried out with formality with proper procedures, such as, if

possible, recommendation by a nomination committee. It is also suggested that all directors be submitted for re-election at least every three years. Indeed, a balanced board is also crucial in this respect. The representation of majority shareholders in the board should also be proportionate to their shareholding. The size of the board should be reviewed such that it comprises an optimum mix of executive and independent directors. Independent directors are company directors who are not substantially related to the company in which they are about to serve. They are typically appointed for their expertise and achievements in the particular business sector in which the company is interested. The appointment of independent directors is particularly important to a company since, as Stonehouse and Pemberton (1999) pointed out, organisational knowledge, which aids decision-making, behaviour and actions, is primarily developed from *individuals* in the organisation, and a company's actions could be improved through better knowledge and understanding (Fiol and Lyles, 1985).

4.3 Directors' Remuneration

A related issue is that of directors' remuneration. The level and composition of remuneration packages for executive directors should be sufficient while the packages for non-executive directors should be based on their relevant duties and responsibilities. The determination of the remunerations should be formal and transparent, with, if possible, recommendations by a remuneration committee. The directors' remuneration packages should also be disclosed in the company's annual report. It should also be kept in mind that the pay gap between the management and the staff of the company should not be too wide as that would affect the morale of the employees which in turn may hurt the company's productivity.

4.4 Roles of Chairman and CEO

In addition, another set of best practices and recommended principles on corporate governance has to do with the roles of chairman and chief executive officers in a company. The powers, roles and responsibilities of both positions should be clearly spelled out in the company's by-laws. Ideally, the chairman and the CEO should be held by two different persons, with the former leading the board in supervising the latter, who in turn implements the policies and decisions of the board within and outside of the company.

Furthermore, the separation of the two positions also enable healthy and constructive interaction between them, and as Cangelosi and Dill (1965) suggested, interactions between adaptation at the *individual* level and adaptation at the organisational level constituted organizational learning (which is crucial in a knowledge economy). However, if these two positions are merged, as is typical in many small-to-medium size companies, the reasons should at least be explained to the shareholders.

4.5 Code of Conduct

In addition, a code of conduct setting out high standard of integrity and ethics should be drafted, adopted and implemented for both the directors as well as the employees of the company. As Pemberton and Stonehouse (1999) indicated, explicit knowledge (Demarest, 1997), being tangible, clearly stated and consisting of details which can be recorded and stored. As part of the code of conduct, it should be required that any conflict of interest between a director and the company should be declared and recorded in company meetings.

4.6 Investor Relations

Yet another subject which could be covered by the first unit in the corporate-governance module is investor relations. As Stonehouse and Pemberton (1999) pointed out, knowledge is a *shared* collection of principles, facts, skills and rules. When a company is still in a closely-held stage, most of the shareholders are probably also the relatives or closed associates of the directors, and they may meet and discuss company matters on a daily basis. Hence the knowledge of the company could be readily communicated. As the company grows, however, more outsiders would become shareholders of the company. Typically, the directors meet shareholders only once per year, at the annual general meeting, or not at all, as is prevalent in some companies which “skip” their annual general meetings. Human psychology dictates that the lack of communications between the shareholders and the directors will cause much misunderstanding and unwarranted doubts and suspicions that could hurt the interest of the company. As such, the company should have a coherent set of corporate communication policy, perhaps setting up an investor relations / corporate communications department as a “bridge” for disseminating relevant company information to shareholders, explaining director’s

decisions and obtaining feedbacks from the shareholders as to their concerns. The investor relations department may also assist potential investors in making their decisions as to whether or not they should invest in the company. This is particularly important in modern companies composed of shareholders for, as suggested above, the ability of company to compete will depend increasingly upon their ability to, *inter alia*, create maximum market value for the company’s knowledge (Finerty, 1997; Stonehouse and Pemberton, 2000), and one way of doing this is by appropriately and effectively disseminating relevant company knowledge by means of investor relations activities.

4.7 Corporate Financial Reporting

Moreover, the first unit in the corporate-governance module can also touch upon the recently much debated issue of financial reporting. As Rampersad (2002), pointed out, knowledge is a function of culture (in this case, company culture). Some companies are more willing to disclose their financial details than others. In any case, a good rule of thumb is that companies should prepare clear and understandable balance sheets and other financial statements that comply with the standards of Malaysian Accounting Standards Board. Appropriate explanations should also be provided in the financial statements for any significant setbacks or successes of the company. Relatedly, a proper and effective internal control / internal audit system should be set up in the company. If possible, an internal audit department should be set up, perhaps supervised by an audit committee which has terms of reference and which is made up of a majority of independent directors and also chaired by an independent director.

4.8 Structural Suggestions

If appropriate, the second (application of best practices and recommended principles to real-life examples) and third (questions-and-answers / discussions) units of the corporate-governance module can be merged, with either the lecturer or the participants providing topics or hypothetical examples for the exercise. After all, as pointed out above, organisational learning, crucial for survival of a company in a knowledge economy, is about detecting errors or anomalies and correcting them by restructuring organisational theories in use (Argyris and Schoen, 1978). The idea here is to enable the participating directors to realise

that corporate governance is for all types of companies, and not just large companies.

5.0 GENERAL SUGGESTIONS FOR IMPROVING THE CORPORATE DIRECTORS TRAINING PROGRAMME

The several observations made at the beginning of the last section is recalled and extrapolated here. In general, directors participating in CDTP are more concerned with the hands-on aspects of the various subjects, and they would be interested in how companies succeed or fail by doing or not doing what the CDTP subjects say they should or should not do. And they would understandably be raising questions which are specific about their own companies.

Presently, CDTP is formatted in such a way that two modules are delivered on the first morning, two in the afternoon and the last two the next morning. Each module is delivered by a lecturer who typically speaks for around one and a quarter hour followed by about five to fifteen minutes of question-and-answer session, if any. It is quite evident that such a course structure is not quite conducive to satisfying what the participating directors are looking for in CDTP. The basically lecture format of CDTP will simply bore the participating directors and thereby decrease their absorption of the materials. It is thus proposed to increase the “interactive components” of the modules. This can be accomplished in three ways. First, the lecturer should limit himself to no more than one hour of lecture, followed by half an hour of question-and-answer to provide the participating directors with ample time to vent their doubts. Second, as suggested in the previous section on corporate governance, the hour-long lecture should be further divided into two half-hour “units”, with the first unit be concerned with the introduction and explanation of recommended principles and best practices, while the second unit should be about the applications of such principles and practices in real-life companies as well as the consequences. Third, even during his lecture, the lecturer should from time to time invite interaction by for example asking the participating directors to repeat what he said or finish off his sentence or provide an example which lives out the theory, etc. This will create a lively atmosphere which chases away the participating directors’ boredom and forces them

to concentrate on the course content by demanding their active participation.

It is further proposed that the six modules be completed in the first day, three in the morning, three in the afternoon. There is no danger of loss of concentration on the part of the participating directors if three (as opposed to two) modules are delivered over a morning or an afternoon, provided the format in the preceding paragraph is followed. It is assumed, of course, that there are breaks in between the modules. On the other hand, the next morning is devoted exclusively to exercises and evaluation. The exercises can take different forms. If there are a lot of participating directors in a CDTP session (the current allowable maximum is 120), they could be divided into groups of, say, five or six. They could, for example, engage in group discussion as to how the course materials they learn the previous day could help them improve the performance of their own companies, or their particular industry or indeed companies in general. Each group should summarise their finding and report it back to the “plenary” moderated by the lecturer who encourages further discussion as a whole. Alternatively, or in addition, the groups could also each take a case study prepared by distilling real-life corporate examples. They may, for example, be presented with a corporate scenario, with each group member urged to play a role, and propose solutions for the extenuating situation. They may then share their situation and solution with the “plenary” session, again facilitated by the lecturer who critiques their suggestions constructively. Lecturer would then sum up the whole course by asking for the participating directors to evaluate the course and suggest points for improvements, so that future CDTP may be further fine-tuned to suit the needs of the participating directors.

6.0 CONCLUSIONS

CDTP was organised to raise the awareness of company director towards, *inter alia*, corporate governance. To accomplish this aim, the overall structure of CDTP, as well as its corporate governance components in particular, should be overhauled, with insightful inputs from knowledge management theories and practices. It could readily be observed that the present layout of the corporate-governance portions of the course stresses heavily on theories and requirements for publicly listed companies, and rather lightly on real-life applications in good corporate governance. It is proposed that the corporate-

governance module be redesigned into three smaller units, the first concerning best practices and recommended principles in corporate governance, the second on the application (or lack thereof) of these practices and principles to real-life examples from inside Malaysia and abroad, and the third unit being a question-and-answer / discussion segment for active participation by the directors attending the course. The same proposed format could be extended to the other five modules in CDTP. Furthermore, the six modules in CDTP could be delivered in one day, with another half a day be used for exercises and evaluation, which are at least as important as the lectures delivered. It is sincerely envisioned that the revamped CDTP as well as its corporate governance module will be more effective and efficient in achieving its goal of fostering a more healthy business environment in Malaysia.

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