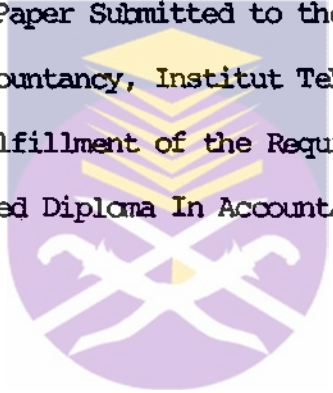


THE CHALLENGES FACED BY A COMPANY  
AFTER IT HAS BEEN PUBLICLY LISTED

A Paper Submitted to the  
School of Accountancy, Institut Teknologi MARA  
In Partial Fulfillment of the Requirements for  
Advanced Diploma In Accountancy



1st June, 1987

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For : ACC 555 : Practical Attachment

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## PREFACE

This project paper has been presented in partial fulfillment of the requirements for Advanced Diploma In Accountancy, MARA Institute of Technology, Shah Alam, Selangor.

It is the author's hope that the paper will enhance the knowledge of the students and lecturers on "The Challenges Faced By A Company After It Has Been Publicly Listed". However, the author wishes to emphasize that the challenges presented are not exhaustive because the paper wishes to concentrate only on the major challenges.

### ACKNOWLEDGEMENT

In the preparation of this report, I would like to record my gratitude to the following persons for their cooperation and help for without whom this report would not be made possible.

- page?*
- (i) Encik Halim bin Hamid,  
Sub-Accountant,  
British-American (Malaysia) Insurance Berhad.
  - (ii) Mr. Tee Hock Chin,  
Audit Senior,  
Coopers & Lybrand.
  - (iii) Mr. Ng Seng Hin,  
Audit Senior,  
Coopers & Lybrand.
  - (iv)  Noraini Md. Nasir,  
Lecturer,  
School of Accountancy,  
MARU Institute of Technology.

Last but not least, I would like to thank my parents for their morale and spiritual guidance.

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## SUMMARY

The challenges faced by a company after it has been publicly listed are numerous. Firstly, there is the need to fulfill and satisfy the legal requirements and government policies.

The objectives of the company will then have to be met by the management and since the company's shares are now owned by the public, greater care will have to be taken to safeguard and improve on the corporate image. This is done by ensuring good corporate behaviour and involvement in social programmes.

A publicly listed company should also take the initiative to attract investors by providing greater disclosure on the plans, activities and results of the company. Another challenge that is being faced is on how to cope with expansion and further capital requirements after gaining access to the capital market. Expansion can be achieved through either internal and external growth. British - American (Malaysia) Insurance Berhad has undertaken the external growth method by acquiring companies which are in the same business as it.



Next comes the human factor challenge whereby the company ensured that there is proper leadership and adequate assistants through proper training, rewards and hiring of additional experienced staff.

The style of operation or corporate culture also has to change as a consequence to the change from a private limited company to a publicly listed company. The solution was to appoint professional managers to facilitate the separation of management from shareholders.

After that is the problem of too much government regulation and control over the publicly listed companies which can be resolved by merging all the government committees and panels into a single decision making body to expedite matters.

As the shareholders are the owners of the company, keeping them happy will form another major challenge. This is being done by maximizing the value of their investment through sound corporate strategies and plans.

The last major challenge discussed is on how to maintain control and prevent takeover of the publicly listed company. Among the possible solutions are to expand the equity base, maximize the

returns to shareholders and manage the company efficiently.

Once the major challenges mentioned above are resolved, managed or avoided accordingly, the company can then enjoy fully the benefits and advantages of being publicly listed.



## 1.0 INTRODUCTION

### 1.1 Background

The Kuala Lumpur Stock Exchange or KLSE was formed in 1973. The stock market represents an important barometer of business confidence in the country, and holds a substantial proportion of the savings of the public. Its success therefore represents the maturity of the Malaysian financial system, and the critical role it plays as an important mobilizer of savings and a major channel of investment funds. (Tun Tan Siew Sin, 1985, p.1)

Currently there are around three hundred companies listed in the Stock Exchange. Among them is the British-American (Malaysia) Insurance Berhad (hereinafter referred to as BAI) which was willing to share its experience of being publicly listed in the KLSE. BAI's shares were officially listed on August 30, 1984. It is now a leading life insurance company in Malaysia with an estimated one hundred and fifty thousand policies in force, total assets of over M\$100 million and twenty branch offices throughout Peninsular Malaysia. (BAI, 1986. p. 3).

Lately, more companies are eyeing the prospect of being publicly listed as a means to increase capital so that the operations of the companies can be expanded and financed. The government had also become involved as shown in the recent listing of two of its main government bodies i.e. Malaysian Airline System and Malaysian International Shipping Corporation.

However, the privilege of going public and be listed with the KLSE is given sparingly, and to deserving companies only. This does not mean that the company can then rest on its laurels. After a company has been publicly listed, different challenges will arise and how the company cope with the challenges will determine the survival and growth of the company.

## 1.2 Purpose

This report has been prepared and compiled with the following objectives:-

- (i) To introduce the major challenges and problems that arise when a company is publicly listed which in this case is the British-American (Malaysia) Insurance Berhad.

(ii) To offer and study various solutions and recommendations to prevent or solve the challenges faced by BAI after it has been publicly listed.

(iii) To provide some insight on the running and managing of a publicly listed company.

### 1.3 Scope and Limitations

The publicly listed company stated in this paper refer to the British-American (Malaysia) Insurance Berhad (BAI) which is listed under the Kuala Lumpur Stock Exchange.

It is not the intention of this paper to make a comparison between a private company or non public company with a publicly listed company. Neither was any comparison made between other publicly listed companies.

The main thrust of this paper will be identifying and pinpointing the major challenges and problems faced by BAI after it has been publicly listed. The challenges stated refer specifically to those challenges that occurred and happened because of the change to a publicly listed company and not those that the company normally has to face.

In the course of discussing the challenges, the researcher will at the same time also discuss on the solutions implemented and offered to overcome the challenges.

Due to the varied types of persons involved in a publicly listed company, it was decided to limit the paper to the problems and challenges faced by the management i.e. the people who direct and manage the company.

The challenges were then compiled to make this report although different challenges may be faced by other publicly listed companies.

All legal requirements, were those effective on the date of this report i.e. 1st June 1987 although a new listing manual of the KLSE will be implemented on 1st July 1987 the contents of it has not been incorporated in this paper due to time constraint.

#### 1.4 Methodology

Various methods were used in the gathering of information for the making of this report. The methods were selected based on their appropriateness and effectiveness with regards to the topic to be studied.

Below is a list of the methods used:-

(i) Interviews

A major part of the information gathered were obtained through interviews with the various persons direct or indirectly involved in the public listed company. The interviews were in the form of discussions at the company's office.

(ii) Review of Related Literature

Research and fact gathering from the various books, magazines, periodicals and other types of publications as listed in the bibliography.

(iii) Personal Observation and Group Discussion

Some of the information gathered were based on the researcher's personal observation from past personal and working experience. Group discussions were organised with some of the researcher's colleagues at Coopers and Lybrand during the five month practical attachment on an informal basis.



(iv) Analytical Review

After all the above methodologies were conducted, all data gathered were collected and systematically arranged and analysed in order to give the researcher the understanding as well as for drawing conclusions.

1.5 Plan

The project paper will firstly discuss on the advantages and also the disadvantages of being a publicly listed company. This will form the background on which the challenges faced by BAI will be identified.

The recommendations offered and solutions implemented will be discussed immediately after every challenge has been stated. Finally the paper will draw conclusions based on the information presented.



## 2.0 ADVANTAGES AND DISADVANTAGES OF BEING PUBLICLY LISTED

It is appropriate to discuss the advantages and disadvantages of going public as quite a number of the challenges facing a company after it has been publicly listed arise from them.

### 2.1 Advantages To The Company

A public listed company is best equipped for survival and growth because of the extra flexibility it possesses in corporate planning. It acquires greater leverage in corporate planning because of the following advantages:-

- (i) It is able to obtain additional capital more easily and in larger amounts than the private (non-listed) companies. This, it can do through issue of shares and on top of that it also enjoys greater accessibility to funds and at more favourable terms from banks and other lending institutions.
- (ii) Its quoted shares in most cases, are acceptable as considerations in mergers and acquisitions.
- (iii) As management is the key to success of any

corporation, a listed company is in a stronger position to attract and retain good managers.

## 2.2 Disadvantages To The Company

The above advantages are indeed very familiar to most corporate planners, who often overlook the disadvantages. We should not forget that at times the disadvantages may outweigh the ? glamour of obtaining public listed status. For example, if the private companies are strong, it may not even be worthwhile to go public. As I see it, the following should be properly appreciated:

- (i) In a private company, there is close personal contact between proprietors, managers (often the same people) and employees. The public company, appealing to outside shareholders, loses this contact between proprietors and managers other than through formal meetings. Since the object of going public is growth, eventually one may have to pay the penalty of growth in the loosening of ties with employees. This is not inevitable but a potential organisational problem.

- (ii) The private company with its limited means, can be more enterprising and can venture into projects with <sup>longer?</sup> larger gestation periods. It can undertake projects having low immediate returns but with sound longer term prospects without the need for quick profits to satisfy shareholders.
- (iii) The few members of a private company are in control of the business. But in a public listed company, "outside" shareholders may restrict the actions of the management in the running of the business.



### 3.0 THE CHALLENGES

#### 3.1 Requirements After Going Public

As with everything, privilege goes hand in hand with responsibility. Being a publicly listed company can be compared to being a member of an exclusive club and to remain a member, one has to abide by its rules.

Primarily these will include compliance with the following:

- (i) Rules and regulation of the Kuala Lumpur Stock Exchange.(refer Appendix 1)
- (ii) Securities Industries Act, 1983
- (iii) Relevant provision of the Companies Act, 1965
- (iv) Capital Issues Committee guidelines. (refer Appendix 2)
- (v) Foreign Investment Committee guidelines. (refer Appendix 3)
- (vi) Registrar of Companies guidelines

(vii) Ministry of Trade and Industry.

Among the major requirements laid out are that a company must immediately notify the KLSE of any information concerning itself or any subsidiary company to avoid the establishment of a false market in the company's securities.

Notification to the KLSE is also required for, inter alia, the following:

- (i) Any change in the Directors;
- (ii) Any change in the nature of business;
- (iii) Any decision to issue or recommend the issue of shares;
- (iv) Any proposed alteration to the Memorandum and Articles of Association;
- (v) Any recommendation or declaration of dividend;
- (vi) Any significant acquisition or sale of assets not normally entered into in the ordinary course of business.