Business Registration Reform Case Studies

Malaysia

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About the Investment Climate Advisory Services of the World Bank Group

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Acronyms

ASEAN Association of Southeast Asian Nations
CBIS Company and Business Image Service
CBS Company and Business System
CBSRoB Company and Business System for Registry of Businesses
CBSRoC Company and Business System for Registry of Companies
CDPD Corporate Development and Policy Division
CEO Chief Executive Officer
CLRC Corporate Law Reform Committee
CLRP Corporate Law Reform Project
CPCF Corporate Practice Consultative Forum
FMS Financial Management System
HRMS Human Resources Management System
IT Information Technology
M&E Monitoring and Evaluation
RM Malaysian Ringgit (Malaysian currency)
RoC Registry of Companies
RoB Registry of Businesses
SDP Strategic Direction Plan
SSM Suruhanjaya Syarikat Malaysia, or Companies Commission of Malaysia
Introduction

Over the last twenty years, a number of countries have recognized the importance of smooth and efficient business start up procedures. A functioning business registration system is now viewed as an important regulatory requirement of any economy, and a predictable, transparent, and modern business registration system is acknowledged to help promote private sector growth and job generation.

Increasingly, governments around the world have undertaken efforts to streamline their business registration systems in order to gain whatever advantage they could in creating growth and jobs. Representatives among developed nations, countries in transition, and developing countries have explored and implemented varied approaches to transforming their business registration regulatory requirements.

While the approaches have varied, the foundation of all business registration reform is redesigning the legal and institutional regulatory framework that underlies the business registration process. Stable and professional business registration institutions help establish standards of trust, transparency, and predictability, and ensure that the public is informed of the facts as quickly as possible.

Tools that have been employed to implement reforms also have not been uniform. Some governments have created one-stop shops, while others have not; some have introduced technology and modern management techniques, while others have relied on traditional methods; some have empowered registration bodies to focus on service, while others have imposed penalty regimes on delinquent companies. Practice shows that in order to achieve sustainable reform, the menu of specific changes is not nearly as important the overall goals of reform. Countries who have achieved more business friendly environments and, consequently, larger formal private sectors following implementation of reforms, all set out to simplify the system and remove burdens on companies while focusing on protecting third parties by maintaining accuracy and encouraging compliance.

Business registration gives businesses formal status and formal operation in the marketplace. It is a dynamic process that impacts the life of its stakeholders, commercial counterparties, and employees by introducing new responsibilities, opportunities, and challenges.
Methodology

This collection of case studies describes experiences and draws lessons from varied business registration reform programs in economies in vastly different stages of development: Bulgaria, Estonia, Ireland, Madagascar, and Malaysia. The case studies were written based on a desk study of reforms in each country discussed. Then, more detailed information was gathered by field-based researchers. In some cases, detail on the business registration process that was in place prior to implementation of reforms was unavailable. As such, data on the number of businesses registered and the time required to completed registration before and after the reforms cannot be compared and contrasted.

Not all of the stories are of comprehensive reform programs that were widely successful. Most countries took different approaches to implementing the reforms. In fact, one of this paper’s most important findings is that reforms of business registration processes can be implemented in a variety of legal, institutional, and cultural settings, and while most countries share common desired reform outcomes, there is no single model for achieving these results.

Whatever their range of success, all of the reforms discussed in these case studies sought to improve the instruments, processes, and institutions underlying all forms of business registration and related services. In all five countries, the broad goals of reforms were to increase economic growth and bring as many businesses as possible into the formal sector. Given the varied nature of the countries, the reform programs focused on achieving different aspects of the desired outcomes—simplified and reduced numbers of procedures, reduced costs, increased availability and transparency of information, increased compliance rates, increased protection of third parties.

Results of the Reforms

Bulgaria: Prior to reforms, business registration was handled in the 28 district courts. While a registration agency was created to take over business registration, the reform process was only partially successful due to problems in four areas: lack of strong legislative will, insufficient financial support by the government, inappropriate organizational structure of the new business registration agency, and weak human resource management.

Estonia: The government-led initiative to reform business registration introduced an experimental approach to e-registration. However, this approach achieved real reductions in the time required to register businesses only after the Minister of Justice set a requirement that business registration be completed in two hours. The actual time required was one day, but in addition to the time savings, the reforms led to a 130 percent increases in the number of enterprises registered from 1998 to 2008.

Ireland: During the economy’s high-growth period of 1980s and 1990s, a low rate of company compliance with the annual return obligations contributed to a large backlog in registry updates. Although Parliament discussed this problem on numerous occasions over these two decades, improvements occurred only following a direct initiative from the Prime Minster in 1999 to
introduce an enforcement and penalty regime. Perhaps in part due to the fact that the registry in Ireland is not legally binding, companies saw little incentive to change their behavior prior to the introduction of penalties for failure to update the registry. However, as of 2008, compliance with filing annual returns is above 90 percent and still improving.

**Madagascar:** While the donor-initiated reform program led to the establishment of a one-stop shop for business registration failed to achieve any recognizable improvements of the business registration process and services, the President's instruction to create the Economic Development Board of Madagascar (EDBM) resulted in significant simplification of registration requirements and procedures. When the EDBM began managing one-stop-shop procedures, registration of companies in Antananarivo was able to be completed in one step and within 5-7 days. This led to a 158 percent increase in the number of new businesses registered from 1998 to 2007.

**Malaysia:** The Cabinet established the Companies Commission of Malaysia in order to facilitate growth of the private sector economy. The top-down supported reform was implemented by this autonomous agency that adopted a service orientation and utilized IT and modern management tools to improve performance while the steps in the process of business registration remained unchanged. Through the electronic system, registration time dropped to one day, and the number of new enterprises registered increased by 58 percent from 2001 to 2008.

**Lessons from the Case Studies**

Despite lack of similarity among the case studies, some themes emerge as important lessons about business registration reform.

1. **Top-level support improves results.** Results are most likely to be achieved if they are supported by and even led from the highest levels of government. This is particularly true if the reforms are occurring in a tumultuous or high-growth period for the country.

2. **Legal concept and principles matter.**
   - Legally valid business registries are most likely to be kept up-to-date by companies and therefore also provide third parties who access the information the best protection from inaccuracies.
   - Simplification of pre-registration procedures, such as notarization requirements and publishing business registration publicly for a period of time have substantial impact on the time and costs of starting of a business.

3. **Technology leads to efficiency.**
   - The use of information technology can facilitate the simplification of registration procedures and consolidation of steps in the registration process; however, recognition of an electronic signature is required to make e-registries equal to other solutions.
   - An electronic registry is a prerequisite for an efficient information service.
4. **Impact of one-stop-shops depends on the approach.** While institutional cooperation and/or a one-stop-shop will reduce the burden on the business, the impact to the efficiency, costs, and quality of registration procedures will differ depending on whether the approach to the one-stop-shop is a postal, physical, or network service or a single-point registration.

Postal services allow businesses to business file the registration dossier in once place, and physical services co-locate staff of the different institutions in one place. In the network service registration materials are electronically distributed to and from the necessary institutions, and in a single-point system, which represents the best practice approach, the registration mandate is delegated to one institution that perfects the registration on behalf of collaborating institutions.

5. **Information service must consider public access.** Registry frameworks and reforms not including public access to legally binding information do not represent good practice for providing protection of third parties.
Summary and Key Characteristics of the Reform

In 1999, the Malaysian Prime Minister Mahathir Mohamad’s Cabinet initiated discussion of business registration reform in the context of its broad goals of facilitating economic growth and private sector development and supporting entrepreneurship. Prime Minister Mohamed’s government viewed a simplified business registration process as a cornerstone to increased formalization of the economy, and increased formalization as a precursor to economic growth and private sector development.

Particularly in light of advances in information technology (IT) and liberalization of world trade, including the establishment of the ASEAN Free Trade Area in 1992, business registration reform was a way to lock in gains from the period of rapid economic growth that began in Malaysia in the 1990s. The economy in Malaysia had grown in size, volume, structure and commercial diversity. Companies had been privatized, and incentives had attracted leading multinational and foreign companies. Reducing the time and costs of formalization would encourage all Malaysian businesses to operate professionally, and help enable them to compete both in Malaysia and globally.

The first steps in the reform process occurred in 2001; much of the groundwork was laid from 2001 to 2003; and in 2004 a comprehensive reform program began. The scope of the work included reform of the:

- Institutional and administrative framework, including the creation of a new entity in charge of all types of business registration,
- Legal framework for business registration, including the legal provisions for the introduction of electronic filing for registration of companies,
- IT framework, including the introduction of an electronic business registration system.

While the Mohamed Government set no specific targets for this reform, both qualitative and quantitative results of the process overwhelmingly were positive. Qualitatively, reforms increased efficiency of the registration process. The government eliminated the two entities that split responsibility for different types of business registration and created a self-funding, autonomous body with a mandate to streamline the business registration process for all types of businesses. This new entity, the Companies Commission of Malaysia, or Suruhanjaya Syarikat Malaysia (SSM), introduced e-Lodgement, an electronic registration system that played a central role in driving quantitative results.

Quantitative improvements were achieved in the total number of registrations, the time required to complete registration, and the compliance rate for filing annual returns. The total number of registrations increased 58 percent from 2001 to 2008. Registration time was cut from 30 days in 2002, to one day for sole proprietors and one day for corporations through e-Lodgement or 24 days under standard manual procedures in 2008. Compliance rates for filing annual returns increased from 44 percent in 2003 to 91 percent in 2007.

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1 See the Doing Business 2008 report. Please note that the 24-day period includes all institutions and procedures involved in business start-up, going beyond the simple incorporation of a company to encompass tax, social security, and labor registration. The full list of institutions and procedures is available in Annex 2.
The table below highlights key reform characteristics.

### Key Reform Characteristics

<table>
<thead>
<tr>
<th>Aspects:</th>
<th>Characteristics:</th>
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<tbody>
<tr>
<td>Background</td>
<td>Cabinet-initiated reform program was motivated by broad governmental goal of facilitating private sector growth.</td>
</tr>
</tbody>
</table>
| Baseline data | Number of enterprises\(^2\) registered: 171,469 (2001)  
Time to complete registration: approx. 30 days (2003)  
Compliance rate (annual returns): 44% (2003) |
| Post-reform performance indicators | - Number of enterprises registered: 270,747 (+ 58% compared to 2001)  
- Time to complete e-Lodgement registration: 1 day  
- Compliance rate: 91% |
| Scope | **Institutional:**  
- Elimination of two institutions and merger of their functions into a new entity – SSM.  
- Development of strategic plans and management systems for registration body.  
**Legal:** Establishment of Corporate Law Reform Committee  
**Process and IT:**  
- Migration from mainframe to Web-based  
- Introduction of e-info, e-Lodgement, Mobile Counter; cooperation with Pospantas\(^3\) |
| Funding | Self-funded through fees collected for SSM services |
| Important attributes of the reform | - Committed top management  
- Strong M&E and project reporting systems  
- Government oversight with well-distributed office network  
- Commitment to Client Charter |
| Approach and methodology | - Service-oriented  
- Risk-oriented, particularly in relation to the introduction of e-registration |
| Monitoring | Prime Minister’s Office ran monitoring and evaluation committee, Working Group on Efficiency Issues |
| Training | - Staff capacity building and training  
- Corporate directors training program |
| Awareness building | - Organizational rebranding program  
- Country-wide information program based on demonstration |

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\(^2\) Companies and businesses

\(^3\) Pospantas is the name of Malaysia’s one-stop agency for revenue collection.
A. Institutional and Administrative Framework

A.1. History

The Malaysian Companies Act and other provisions on company registration were built on the 1946 British Companies Ordinance and 1948 Companies Act. Registration procedures were implemented by two entities that had been set up prior to the passage of these acts— the Registry of Companies (RoC), established in 1898, and the Registry of Businesses (RoB), established in 1939. These two registries were organized as two separate but integrated divisions of the Ministry of Domestic Trade and Consumer Affairs. Operations were funded by the Ministry’s budget, and revenues were channeled back to the Treasury.

The RoC and RoB split business registration responsibilities. The RoC handled “company” registration, administered and enforced the 1949 Trust Companies Act, the 1965 Companies Act, and the 1971 Kootu Funds (Prohibitions) Act. The definition of company is a public or private entity registered in Malaysia to conduct business and limited by shares, private or public limited by shares or guarantee, or a firm without the word “Berhad,”4 unlimited liability companies, or a branch of a foreign company.

The RoB handled “business” registration, administered, and enforced the 1956 Registration of Businesses Act. The definition of business is a sole proprietorship, wholly owned by a single person or trade name, or a partnership, a business owned by at least two persons but not more than 20 partners.

The RoC and RoB made attempts to be more efficient and service-oriented. In the early 1980s, the RoC began to store business registration information on a mainframe and individual records on microfilm. Information supplied in response to inquiries was made available either in the form of a computer print-out or photocopy.

In April 1996, the RoC launched a Web site containing an updated list of companies registered with the RoC as well as information regarding RoC policies.

The RoC and RoB also published a Client Charter, which set forth benchmark turnaround times for their services. The performance standards specified in the 1996 version are illustrated below.

Client Charter 19965

<table>
<thead>
<tr>
<th>RoC Services (under the Companies Act 1965)</th>
<th>Time Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue letter of approval of company name</td>
<td>5 days</td>
</tr>
<tr>
<td>Issue certificate of incorporation of a new company</td>
<td>5 days</td>
</tr>
<tr>
<td>Issue certificate of conversion of status</td>
<td>5 days</td>
</tr>
</tbody>
</table>

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4 “Berhad” is a public limited liability company under the Malay Law.
5 There is no information available regarding whether the Client Charter was honored by the RoC and RoB staff.
A.2. Creation of New Business Registration Agency

The first concrete step toward business registration reform occurred in early 1999 when the Ministry of Domestic Trade and Consumer Affairs proposed the establishment of a new statutory body that would have sole responsibility for all forms of business registration.

Over the next two years, the Cabinet continued discussion on this idea and developed and took steps to put legislation into place to serve as the foundation for such a change. On June 30, 1999, the Cabinet approved the proposal, and on March 28, 2001, the Companies Commission of Malaysia Act established the legal framework for the SSM. The Act was passed by the Dewan Rakyat (House of Representatives) on July 19, 2001, and by the Dewan Negara (Senate) on August 7, 2001. The Companies Commission of Malaysia Act 2001 (Act 614) became law on September 27, 2001. In order to synchronize the new law with existing legislation, the House of Representatives amended the Registration of Businesses Act 1956 and the Companies Act 1965 by enacting two new pieces of legislation—the Registration of Business (Amendment) Act 2001, and Companies Amendment (No. 2) Act 2001. Both laws entered into force as of April 16, 2002.

Created as a result of a merger between the RoC and the RoB, SSM officially began operations on April 16, 2002, as an agency under the Ministry of Domestic Trade and Consumer Affairs with a mandate to streamline the business registration process. Autonomous in matters of human resources and financial management, SSM pays 50 percent of the gross revenues generated by the services to the treasury.

According to SSM’s Annual Report, the establishment of the agency as an autonomous, flexible, and responsive regulatory authority was designed to: i) stimulate rapid economic growth through increases in company incorporations, business registrations, privatization, foreign investment and the systemic expansion of the private sector; ii) enhance the national corporate governance framework and encourage businesses to act in accordance with principles of good governance; iii) enhance the public service delivery system; and, iv) support globalization.
A.3. Characteristics of SSM

A.3.1. Structure and Mandate

SSM, which is headquartered in Kuala Lumpur, has offices in each of the 14 Malaysian states. Some state offices also have multiple locations or branch offices. SSM has 1,160 staff—500 based in Kuala Lumpur and 660 in state offices.

The map below shows the geographic distribution of SSM’s offices.

While SSM’s main activity is incorporating companies and registering businesses, its complete list of statutory functions under the SSM Act includes a broader mandate.

SSM’s core functions are: i) to ensure that the provisions of the Companies Commission of Malaysia Act (SSM Act) and laws are administered, enforced, carried out, and complied with;\(^6\) ii) to act as agent of the government and provide services in administering, collecting, and enforcing payment of fees or any other charges; and, iii) to regulate matters relating to corporations, companies, and businesses.

In addition to these core functions, SSM performs policy and research roles. SSM is responsive to requests from the Minister of Domestic Trade and Consumer Affairs and carries out the broad tasks of advising the Minister and carrying out research and commissioning studies on any matter relating to corporate and business activities.

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\(^6\) Including business registration pursuant to Section 17 of the SSM Act.
SSM also has a mandate to promote corporate governance and to disseminate information about business registration laws and about companies that have completed business registration. SSM sets out to influence corporate governance by encouraging proper conduct among directors, secretaries, managers, and other officers of corporations, self-regulated corporations, companies, businesses, industry groups and professional bodies.

The chart below shows the institutional and administrative organization of the SSM:

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**A.3.2. Governance and Monitoring and Evaluation**

From its inception, SSM had in place robust governance and reporting and monitoring systems. As mandated in the SSM Act, SSM is managed by a Chief Executive Officer (CEO), who reports directly to the Minister of Domestic Trade and Consumer Affairs, and is administered by a board.

Both the CEO and the board are appointed by the Minister. The board is comprised of a chairman, the SSM CEO, and from five to seven other members, three of whom must be public servants. The public servants are required either to be registered lawyers or to possess relevant knowledge or experience in commercial or company matters.

SSM uses a balanced scorecard management approach. Its reporting and monitoring system supports this approach through annual, quarterly, and monthly review cycles. Approval of strategy, projects, and budgets occurs annually; Reports on organizational activities are issued quarterly. Meetings to monitor specific projects and activities are held on a periodic, as-needed basis.

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7 The Balanced Scorecard is a conceptual framework that enables an organization to clarify its vision and strategy, thus effectively translating these into action.
SSM management also monitors and reports on performance metrics. For example, agency-wide performance against the benchmarks put forward in the Client Charter are measured on a monthly basis and reported to the Prime Minister’s Working Group on Efficiency Issues. SSM also tracks the compliance rate of companies’ submission of annual returns.

In 2002, SSM’s Strategic Direction Plan (SDP) enhanced the organization’s governance structure and systematized its approach to monitoring projects by establishing the Project Management and Monitoring Office and the Risk Management Office within SSM’s Corporate Development and Policy Division (CDPD). It also formed the Information Technology Governance Council to oversee all information technology initiatives.

**B. Reform Process**

When SSM was established, no reform timeline had been set. Despite the mandate for reform, no transitional guidelines for implementing new services or modifying services had been provided by RoC and RoB.

From April to July 2003, SSM management developed the document that provided the strategic foundation for reform. *The Strategic Roadmap 2004-2008*, which was endorsed by the board in 2003, spelled out SSM’s vision and mission as well as strategic objectives for business registration reform. The vision centered on creating a responsive center of excellence for corporate information, regulation, and development that would enhance national economic competitiveness. To drive day-to-day operations toward this vision, SSM leadership articulated a clear mission statement. To further guide the staff, SSM management published eight strategic objectives that echoed the vision and reinforced priority areas for the reform.

**SSM Mission**

- To promote and cultivate a conducive and dynamic business and regulatory environment;
- To provide timely, accurate, and value-added information and services enabled by technology; and
- To instill good corporate governance through continuous education and effective surveillance and enforcement.

**SSM Strategic Objectives**

1. Achieve operational excellence in providing services through innovation and use of technology and delivery channels.
2. Attract, develop, and retain competent and multi-skilled human resources;
3. Initiate, develop, and implement a comprehensive regulatory framework in tandem with changing business environment;
4. Instill good corporate governance through continuous education;
5. Ensure compliance through effective surveillance and enforcement;
6. Enhance revenue and operational efficiency to ensure sustainable growth in financial performance;
7. Collaborate with professional bodies, other regulatory agencies, and other international corporation administrators.
8. Develop and sustain an excellent corporate image.
Following the release of The Strategic Roadmap 2004-2008, SSM went through a period of organizational transformation and corporate restructuring. During this time, SSM implemented an organizational rebranding program and developed a plan for introducing new and enhancing existing services.

Central to the rebranding effort was the establishment of SSM’s corporate identity, including an organizational logo, a new Web site, and branded publications. SSM created a public affairs section and more actively engaged the media in order to enhance information dissemination efforts and increase awareness of SSM among the general public.

Beginning in 2004, SSM initiated a comprehensive reform effort based on a two-pronged approach: revision of the legal framework for business registration and introduction of a more responsive public service delivery system.

B.1. Legal Framework Reform

Legal reform was implemented through the Corporate Law Reform Program (CLRP). In December 2003, SSM created the Corporate Law Reform Committee (CLRC) to execute the CLRP. The CLRC, which was chaired by a retired Court of Appeals judge, had 18 members who had experience as regulators, legal scholars, legal practitioners, accountants, and corporate officers.

SSM set up a Secretariat in its CDPD to support the CLRP. A consultant, three full-time research managers, and an administrative staff person coordinated and monitored the CLRP for the CLRC.

The original timeline for the CLRC’s work was December 2003 through December 2006. However, implementation was slower than expected. The delay in the CLRC’s commencement of operations from December 2003 to July 2004, led to missed deadlines for other outputs. CLRP’s Strategic Framework was published in 2004.

Although consultative documents and reports on the different aspects of the Companies Act were issued periodically from 2004 to 2008, the final report was delayed from November 2006 to June 2008. The CLRC requested an extension on the first draft until November 2007 in order to accommodate completion of relevant work carried out by the Working Group on e-Sanctions and Enforcement, which was established in April 2007.

The CLRC completed the draft, or interim report, in November 2007, but then requested another extension until March 2008 to finalize its report. The CLRC requested a final extension until June 2008 to allow time for copyediting.  

B.2. Public Service Delivery Reform

The second aspect of the comprehensive reform was to implement a new, more service-oriented approach to public service delivery. SSM management introduced work process
changes, notably in the area of human resources, and the SSM technology department introduced IT system changes.

Making changes to work processes was essential in the restructuring of SSM from a new entity into a dynamic organization capable of achieving the strategic objectives outlined in *The Strategic Roadmap 2004-2008*. Structural changes to human resources and related processes facilitated the introduction of new products and services. Following the introduction of a new organizational structure and corporate values, a performance competency modeling system was introduced, and an integrity and discipline section was created. These mechanisms served the dual purpose of monitoring performance and empowering staff in their new roles.

IT systems changes enabled efficiency gains in both the new electronic business registration system, e-Lodgement, and in the retrieval of information about businesses that were already registered. The IT department led the migration of all systems from a mainframe to a Web-based server. This required developing a master plan, re-engineering business processes, cleaning the data, and performing risk management and monitoring activities. The IT department not only led the development and implementation of this project, but also performed all system maintenance.

Other IT changes introduced included the upgrade of the imaging system, the introduction of a wireless internet system, and the implementation of new human resources and financial management systems.

In 2007, SSM publicly demonstrated its commitment to service orientation by adopting the motto “doing the right things right.” This motto guided relationships with stakeholders and underpinned SSM’s corporate culture. Internally, SSM reinforced this motto through the adoption of five new corporate values:

1. Teamwork—Work together collectively towards a common goal, learn from each other, and share the skills and resources for stakeholders’ benefits.
2. Integrity—Subscribe to superior work ethics and apply them in all areas of duties.
3. Continuous knowledge and skill enhancement—Encourage employees to enhance competencies, skills, and knowledge with emphasis on the pursuit of continuous learning to promote creativity, quality, and innovativeness.
4. Results orientation—Set high standards and strive to exceed them as well as recognize and reward those who have produced superior results.
5. Customer orientation—Determine to render outstanding service delivery to all customers for long-lasting and mutually beneficial relationships.

### B.3. Stakeholder Involvement

When reform began in earnest in 2004, SSM introduced two regular structures for stakeholder involvement: the Annual Dialogue and the Quarterly Corporate Practice Consultative Forum. Both of these structures are still in place. In addition, in 2006 SSM held an SSM Day, which was designed to raise public awareness and attracted more than 1,000 visitors.

SSM describes the Annual Dialogue as a primary means to engage stakeholders in an open discourse about the business registration process. The main objectives are to: i) promote
understanding among and build relationships with industry and professional bodies; ii) exchange ideas and clarify matters pertaining to operational issues in order to enhance SSM’s efficiency; iii) disseminate information to participants and the public in order to promote widespread knowledge about business registration; and, iv) collaborate on the formulation of guidelines in certain specific areas.

The Corporate Practice and Consultative Forum (CPCF) provides a platform for its members to specifically discuss matters related to the 1965 Companies Act and its bylaws. The CPCF, which is chaired by SSM, includes members of professional bodies and selected organizations. The CPCF promotes discussion and recommendations from the participants on issues related to company law through active consultation, cooperation, and assistance between CPCF members and SSM senior officers. The CPCF also discusses and provides input on how to improve SSM’s service delivery.

In addition to these two regular stakeholder fora, SSM participates in other events organized by Ministry of Domestic Trade and Consumers Affairs and other relevant government agencies to create public awareness about SSM’s products and services.

**B.4. Reform Costs**

All reform costs were financed by the revenue generated from SSM’s fees and services. SSM received no financial or technical assistance for implementation of the reform from either the Malaysian government or donors.

From 2002 to 2007, SSM invested MYR 47.0 million\(^9\) in software and hardware to improve service delivery and automate work processes. Additional costs for training, a public awareness campaign, and the CLRP amounted to about MYR 4.9 million. The table below shows the breakdown of the MYR 4.9 million.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Programs</td>
<td>No breakup on IT training</td>
<td>MYR 125,804</td>
<td>MYR 141,167</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Awareness Campaign</td>
<td>MYR 6,786</td>
<td>MYR 234,879</td>
<td>MYR 337,272</td>
<td>MYR 401,711</td>
<td>MYR 639,290</td>
</tr>
<tr>
<td>CLRC</td>
<td>SSM allocated MYR 3 million to review the Companies Act 1965 (Dec 2003–June 2008)</td>
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SSM undertook a number of other IT projects for which costs cannot be specified, including migration of the registries from a mainframe to a Web-based server, upgrade of its imaging system, introduction of mobile wireless internet connectivity, and implementation of electronic systems for human resources and financial management.

\(^9\) By March 2009 USD 1 was equal to 3.6 MYR, so MYR 47.0 million was equal to USD 12.7 million.
C. Post-Reform Business Registration Procedures and Process

To register a business under the Registration of Business Act 1956, two forms must be filed: Form PNA 42, in order to obtain approval of the business name (if the business is using a specific trade name), and Form A, which records name and nature of business, particulars of owner(s), partnership agreement, and commencement date and locations of business operations.

To incorporate a company, a person must first file Form 13A in order to determine if the proposed name of the intended company is available. If it is, the application will be approved, and the proposed name reserved for the applicant for three months. Under e-Lodgement, this step is instantaneous.

Once the name has been reserved, the person must lodge incorporation documents, along with the original Form 13A, a copy of the letter from SSM approving the name of the company, and a copy of the identity card of each director and company secretary.

Incorporation documents include:

- **Form 6, Declaration of Compliance**: This declaration states that all requirements have been met. It must be signed by the company secretary who handles the registration and is named in the Memorandum and Articles of Association.

- **Form 48A, Statutory Declaration by a Person before Appointment as Director, or by a Promoter before Incorporation of Corporation**: In this form, the director or promoter declares under oath that he or she is not bankrupt and has not been convicted and imprisoned for prescribed offenses. It is not mandatory to swear this document when filing through e-Lodgement.

- **Memorandum of Association and Articles of Association**: The memorandum and articles of association must be stamped and duties paid at the Stamp Office. These must be signed by the subscribers in front of a witness and filed. The Memorandum of Association describes the company's name, the objects, the amount of its authorized capital (if any) proposed for registration and its division into shares of a fixed amount. The Articles of Association describes the regulations governing the internal management of the affairs of the company and the conduct of its business.

Forms can be lodged either manually or through an electronic e-Lodgement system. Manual filing may occur in person or via the post. In the case of manual filing, SSM staff enters the information into the database, where it is cross-checked against existing data. They then verify all information and supplementary documentation, and scan the material. Finally, they issue a certificate of incorporation.

Filing through e-Lodgement requires company representatives to register via the SSM Web site, subscribe to SSM’s e-Services, and pay a registration fee. Then, company representatives may file their information, and the system will automatically cross-checking this with the current database. Following final verification and approval by an SSM office, the registration certificate is sent via e-mail.

The registration workflow is as follows:
C.1 Business Registry

The business registry maintained by SSM is a stand-alone system that is not integrated into other institutions. The registry, which is a national database that covers all of Malaysia, is the official source of legal information on companies and businesses. The Companies Act of 1965 and Registration of Businesses Act of 1956 specifically state that information or documents extracted from the business registration entity under the seal of the registrar carry evidentiary value and shall be admissible in the court of law.

The system is based on legal principles of positive and negative reliability, which means that all third parties obtaining information from the registry are deemed to be acting in good faith.
As the custodian of corporate and business information, SSM is dependent on the integrity of the information supplied by companies and businesses who register. Therefore, it is a criminal offense to lodge false or misleading information through the business registration process.

Registering with SSM has a constitutive effect. The Certificate of Incorporation/Registration that is issued upon completion of the registration process is legally binding as confirmation of the business’ name and form. The original certificate is delivered to the company, and duplicates are issued by SSM upon request. A new original will be issued only if there is a change in the company’s name or legal form.

C.2 Post-registration

Businesses and companies are obliged to notify SSM of any changes in the previously filed information. Forms for filing amendments are available on SSM’s Website. Most forms can be filed through the e-Lodgement service.

Companies also are obliged to file an annual return, Form 56, which verifies registry information. If there are any discrepancies between information filed through the annual return and the registered details, SSM will reject the annual return and notify the company to file the correct information in the proper form.

Public companies limited by shares, which have more than 500 shareholders, also are obliged to submit annual financial statements along with Form 56.

D. Results Achieved through the Reform

Reforms led to increased efficiency of the registration process rather than a reduction in the number of steps. Both quantitative and qualitative performance measures show that the reform yielded positive results.

D.1. Quantitative Measures

The number of new registrations increased year on year over the period 2001–07. The annual number of new companies registered was stable, but there was a steady increase from 2001 to 2007 in the number of new businesses registered. In the three years following comprehensive implementation of reforms (2005-2007), there was a 19 percent increase—from 227,785 to 270,747—in the aggregate number of new business and company registrations. From 2001 to 2007, there was a 25 percent increase, and over that same period, the number of foreign investors registered grew 13 percent, from 53 to 60.
The table below shows data on registrations from January 2001 to May 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of New Companies Registered</th>
<th>Number of Companies in SSM</th>
<th>Number of New Businesses Registered</th>
<th>Number of Businesses in SSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>31,967</td>
<td>139,502</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>34,757</td>
<td>155,419</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>36,082</td>
<td>642,292</td>
<td>180,950</td>
<td>2,682,405</td>
</tr>
<tr>
<td>2004</td>
<td>38,579</td>
<td>680,871</td>
<td>189,206</td>
<td>2,871,611</td>
</tr>
<tr>
<td>2005</td>
<td>37,740</td>
<td>717,953</td>
<td>193,095</td>
<td>3,064,706</td>
</tr>
<tr>
<td>2006</td>
<td>38,293</td>
<td>756,245</td>
<td>216,147</td>
<td>3,280,853</td>
</tr>
<tr>
<td>2007</td>
<td>43,337</td>
<td>799,592</td>
<td>227,410</td>
<td>3,506,539</td>
</tr>
<tr>
<td>May 2008</td>
<td>18,530</td>
<td>818,176</td>
<td>112,099</td>
<td>3,537,618</td>
</tr>
</tbody>
</table>

Reforms led to an improved rate of companies complying with the annual return obligation. Following the start of the comprehensive reform program in 2004, there was a 28 percent increase in the compliance rate of filing annual returns to 91 percent in 2007.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Return Compliance Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>44</td>
</tr>
<tr>
<td>2004</td>
<td>64</td>
</tr>
<tr>
<td>2005</td>
<td>71</td>
</tr>
<tr>
<td>2006</td>
<td>80</td>
</tr>
<tr>
<td>2007</td>
<td>91</td>
</tr>
</tbody>
</table>

There also were improvements in the metric of amount of time required to register. The reform process led to a reduction in the time required to complete a number of business registration procedures. The factors believed to have the largest impact were the adherence to the Client Charter and the e-Lodgement service. The table below compares data before and after the reforms.

Data on Time to Complete Selected Registration Procedures, 2002 compared to 2008

<table>
<thead>
<tr>
<th>Procedure</th>
<th>2008</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manual</td>
<td>e-Lodgement</td>
</tr>
<tr>
<td>Approval of Business Name</td>
<td>1 day</td>
<td>1 hour</td>
</tr>
<tr>
<td>New Registration of Business</td>
<td>1 day</td>
<td>1 hour</td>
</tr>
<tr>
<td>Registration Renewal</td>
<td>15 min</td>
<td>15 min</td>
</tr>
<tr>
<td>Registration of Termination of Business</td>
<td>15 min</td>
<td>15 min</td>
</tr>
<tr>
<td>Post-Registration Amendments Filing</td>
<td>1 day</td>
<td>1 hour</td>
</tr>
<tr>
<td>Company Name Approval</td>
<td>1 day</td>
<td>1 hour</td>
</tr>
<tr>
<td>New Company Incorporation</td>
<td>1 day</td>
<td>1 hour</td>
</tr>
</tbody>
</table>

D.2. Qualitative Measures

The reform program’s qualitative achievements relate to the enhancement of corporate governance and introduction of a more efficient and customer-responsive public service delivery system. The reforms increased access to services, stimulated growth in the private sector by streamlining the business registration process, and led to the establishment of an autonomous, flexible, and responsive regulatory authority.

The introduction of the Web-based, e-Lodgement system increased transparency and improved capacity to respond to requests for information about already registered companies and businesses.

The volume of requests for registry information increased by 33 percent from 2005 to 2007. Detailed information on increases by product is illustrated below:

<table>
<thead>
<tr>
<th>Product</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>As at Jun 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company profile</td>
<td>416 184</td>
<td>432 182</td>
<td>481 644</td>
<td>252 474</td>
</tr>
<tr>
<td>Business Profile</td>
<td>148 409</td>
<td>175 500</td>
<td>203 562</td>
<td>111 889</td>
</tr>
<tr>
<td>Business Reg. Certificate</td>
<td>12 924</td>
<td>12 986</td>
<td>16 956</td>
<td>14 851</td>
</tr>
<tr>
<td>E- info *</td>
<td>N/A</td>
<td>16 819</td>
<td>85 847</td>
<td>85 556</td>
</tr>
<tr>
<td>Idaman search</td>
<td>N/A</td>
<td>127 469</td>
<td>82 918</td>
<td>39 135</td>
</tr>
<tr>
<td>Document - CTC</td>
<td>89 513</td>
<td>72 839</td>
<td>88 751</td>
<td>47 271</td>
</tr>
<tr>
<td>Document - Non CTC</td>
<td>844 425</td>
<td>930 722</td>
<td>1 043 820</td>
<td>524 567</td>
</tr>
<tr>
<td>Duplicate certificate</td>
<td>1 888</td>
<td>1 934</td>
<td>1 749</td>
<td>728</td>
</tr>
<tr>
<td>Total</td>
<td>1 513 343</td>
<td>1 770 451</td>
<td>2 005 247</td>
<td>1 076 471</td>
</tr>
</tbody>
</table>

* e-info w.e.f 1st July 2006

E. Conclusion

Malaysia’s business registration reform program was not a revolutionary change from one system to another. It did not achieve dramatic savings in the time required to complete the process, nor did it cut costs significantly. The program was not implemented quickly. However, reform did lead to a more efficient and transparent system: the government merged two existing institutions into one self-funding, self-sustainable, client-oriented and autonomous business registry. The new institution launched an IT reform which allowed on-line registration and access to data, and developed a decentralized network of regional offices. Moreover, the SSM, which has a mandate to continue streamlining the business registration process for all types of businesses, is still carrying out reform. Indicators show that the number of registrations and the availability of information about registered companies increased, and measured implementation led to sustainable improvements.

11 See the Doing Business 2009 report that the Starting a Business indicator has dropped to 13 days from 30 in 2003 and 24 in 2008.
Although initially designed and driven by the top levels in the government, throughout the reform implementation process, the newly formed registration entity actively sought input from the private sector and took steps to ensure that changes were shared with key constituency groups and the general public. The result was change that was understood widely and accepted broadly among stakeholders.

The focus on introducing up-to-date IT tools both to aid the management of the registration entity and to complete steps in the registration process puts the system in good stead for future process-oriented changes. The technology that was put into place increased responsiveness and facilitated a more rigorous approach to customer service.

The scope of Malaysia’s business registration reform process was far-reaching long-lasting enough to serve as a model of a conservative approach to successful business registration reform. The focus of the reform on developing viable frameworks—institutional and administrative, legal framework, and technological—led to permanent and tangible benefits to the private sector.
ANNEX 1: Key Persons Contributing to the Reforms

SSM contacts:
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Rokiah Mhd Noor, Director Registration Services; E-mail: hrokiah@ssm.com.my
Mohammad Redzuan Abdullah, Director Legal Services
Azryain Borhan, Director Corporate Development and Policy; E-mail: azryain@ssm.com.my

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Professional service providers:
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Phone: +603 2173 1188; Homepage: www.pwc.com/my

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Home page: www.symphony.com.my

Ariff Izwan Che Mohd Hashim, Manager Strategic Planning, Small and Medium Industries Development Corporation; E-mail: ariff_izwan@smidec.gov.my; Further information is available at: http://www.ssm.com.my.
ANNEX 2: Institutions and procedures for business start-up in Malaysia in 2008

<table>
<thead>
<tr>
<th>Procedures</th>
<th>Days</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Approval of company name</td>
<td>7 (1 hour)</td>
<td>MYR 30</td>
</tr>
<tr>
<td>2. Stamping of documents</td>
<td>1</td>
<td>MYR 220</td>
</tr>
<tr>
<td>3. Registration with SSM</td>
<td>9 (1 day)</td>
<td>1</td>
</tr>
<tr>
<td>4. Procurement of company seal</td>
<td>1</td>
<td>MYR 150</td>
</tr>
<tr>
<td>5. Procurement of statutory and share certificates books</td>
<td>2</td>
<td>MYR 200</td>
</tr>
<tr>
<td>6. Registration with Income Tax Department</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>7. Registration with Employment Provident Fund</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>8. Registration with Social Security Organization</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>9. Notification of the Director General of Inland Revenue Board</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>24 (10 days)</td>
<td>1</td>
</tr>
</tbody>
</table>

1 Depending on the amount of the authorized share capital.

Procedure 1. Approval of company name
The promoter must apply and receive from SSM the pre-approval of the intended company name. The pre-approval will also function as the reservation of the name being valid for a period of three months. The pre-approval process will be completed within minutes when the e-Lodgement services are used.

Procedure 2. Stamping of documents
The memorandum and articles of association must be stamped and duties paid at the Stamp Office while the Form 48A has to be sworn in front of a Commissioner of Oath. Form 6 has to be declared and signed by the company secretary.

Procedure 3. Registration with SSM
Filing of the registration dossier and payment of the registration fee by the Company Secretary with the SSM. The registration process within SSM is concluded and the Certificate of Incorporation issued within four working days. The process is concluded within one day.

Procedure 4. Procurement of company seal
It is compulsory for the company to have a company seal which may be delivered within one day.

Procedure 5. Procurement of statutory and share certificates books

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1 The Doing Business 2008 report does not reflect the impacts of the newly introduced e-services.
The statutory and share certificate books to be kept by the company secretary must be procured at specialized shops.

**Procedure 6. Registration with Income Tax Department**
The company when incorporated must register by filing a specific form and documentations with the Tax Department to get a tax file number.

**Procedure 7. Registration with Employment Provident Fund**
The company when incorporated must register by filing a specific form and documentations with the Employment Provident Fund to get its registration number.

**Procedure 8. Registration with Social Security Organization**
The company must register by filing a specific form and documentations information about employed staff with the Social Security Organization. It will receive a specific registration number for future reporting and updating of information.

**Procedure 9. Notification of the Director General of Inland Revenue Board**
The company must notify the Inland Revenue Board on all staff employed.