

Saturday September 25, 2004

Keeping the engine running

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Azman Mokhtar's appeal is quite clearly personal as much as professional. Those who move in his milieu say his straight and principled style has drawn many associates and friends to want to join him in what he refers to as a “nation building” process. Perhaps, he is not exaggerating by referring to this makeover exercise that way. If it works out, the story of Khazanah is likely to turn into a model country story.

Azman has started the engine. Now all he needs is to keep it running. Below is how he plans to do that:

BIZWEEK: What were your immediate priorities when you joined in June this year?

Azman: The first thing was diagnostics ... that is to understand where we are, how we got here and where we were relative to the new mandate for Khazanah. The new mandate involves being more active strategic investors, including looking at potential cross border investments.

We spent a lot of time early on meeting the key stakeholders, the leadership of investee companies and members of the investment and business community. It was important to understand their concerns and aspirations. We have now syndicated the views into a coherent plan. The diagnostics confirmed that our starting position was stable and reasonable strong.



Azman Mokhtar

In syndicating this vision, we asked ourselves what would constitute success after three years, which incidentally, is the duration of my contract. We eventually landed on three areas - first the financial objectives of achieving superior total shareholder returns: second, the strategic objectives, mostly centred around capability building including in the areas of sectoral and geographical exposure, human capital and technological capability: third, the institutional capacity building objectives of Khazanah. The last involves strong foundations in terms of processes, charters, systems and controls, work culture and eventually brand equity. Our KPIs are therefore within this framework.

Why change Khazanah's custodial investor role? What is the biggest motivation in revamping Khazanah?

The framework for change in Khazanah's mandate announced in May this year by the Prime Minister is within the broader context of the very important task of improving national competitiveness and total factor productivity. This is especially pertinent in view of the increasing pressures of liberalisation and globalisation.

It was felt that Khazanah needed to play a more active role to catalyse the transformation of making our companies and especially GLCs better and prepared for a more liberalised world. Khazanah's role as an active strategic investor now involves driving and creating greater shareholder and strategic value. The first involves financial returns, the second, generally, in terms of capabilities. This also covers, where appropriate, making calculated bets on behalf of the nation into new sectors and new geographies that we deem important in terms of penetration, linkages and potential for the nation's long-run competitiveness.

Sources of Khazanah's revenue				
	FY 2000	FY 2001	FY 2002	FY 2003
	%	%	%	%
Dividend income*	29.1	37.8	48.2	51.3
Interest income	36.6	35.8	39.4	46.2
Gains from disposal of shares and bonds	20.4	5.4	4.00	0.87
Accretion of discounts**	13.9	21.0	8.4	1.6
Others	-	-	-	0.1
Total income (RM mil)	1,408.08	982.08	1,054.90	1,059.78

* Gross dividend before tax
 ** On discounted bonds that Khazanah has invested in
 Source: RAM

Where 10-15 years ago there was a wave of privatisation involving relatively small reduction in Government's holdings with a focus on infrastructure building, now there is more emphasis on exacting efficiencies out of existing assets, on a more optional shareholding structures and ownership levels by the Government. Viewed from the timeline of the financial crisis, it is also sensible sequencing, first it was about macro-economic stabilisation, then it was what I would call “war time restructuring” involving key companies such as Renong-UEM, MRCB and MAS, among others. Now, this is perhaps “peace-time restructuring” where we are addressing several strategic companies and sectors that are not ostensibly in crisis mode. There is some focus on key heavyweights such as TNB and Telekom as value creation, has been, at best, sideways over the last ten years or so.

In this transformation process, you've got new blood with new ideas. Beneath that, however, is a layer of those who have served with these companies for long and belong to the old school. Doesn't that make things a tad difficult?

In any transformation or change management, these are common challenges. That's why it's important to syndicate our views and get broad agreement that what we are doing is worthwhile. In our case, Khazanah was lean. So, it was almost like a start-up in terms of the new mandate.

We took over a relatively stable ship and the challenge is to equip the ship to undertake its new charter.

It is most rewarding when we are able to blend new blood and new ideas with the wisdom and tacit knowledge of the existing group and the previous leadership. We have brought in new blood as well as retained many experienced hands, especially our nominee directors.

Also to note is that some of these new CEOs in the late 30s and early 40s are not exactly young. In any case, we are certainly aging very quickly and when people comment that the hair is quickly turning white, my response has been positive in that I still have hair (laughs).

Just curious. Do you think you could have done the same reforms if the chiefs of some of these GLCs were retained?

Hypothetically, yes. But usually, in change management, you will need to change leadership. You basically want a new set of initiatives, a new sense of momentum. It's not just us. This happens anywhere in the world. When you want to change, you typically start at the top.

How does Khazanah plan to rearrange its portfolio of investments?

In rebalancing the portfolio, we ask several basic questions, ranging from financial (are the investments fully over or undervalued?); the strategic (does the portfolio reflect our sector and later, geographical focus?); and even the fundamental (does the government need to be in this business and if so, at this level of ownership?)

We are on record as saying we will eventually sell down in some core holdings as it would be our task to recycle such investments into new bets. Any sell down will be done in an orderly fashion. Here, the seller is not a distressed holding company forced to sell under severe creditor pressure. We have ample holding power and it is only natural that we want to see some fruits of the GLC transformation programme first.

New investments will be made with an eye for what contributes to the country's competitiveness and also in terms of enhancing our existing suite of investments. This would include, where appropriate, cross-border investments, where our companies see opportunities for new growth frontiers. An early example is our bid with Maybank for Bank Permata in Indonesia, where we believe after the banking consolidation at home, our national champions such as Maybank, needed to spread both their scale and wings.

Infrastructure is also a sector where we have done well at home and where the good track record in building, running and owning roads, highways and power plants is ready to be exported.

We will also invest in viable strategic sectors where the private sector is not willing or not able to invest in. One example is wafer fabrication. Silterra is a big and challenging investment that has achieved a modest turnaround recently. It is a high capex and highly cyclical industry but it's also an investment that's important to the country in terms of linkages to the various technology industries.

Within the next three years or so, the portfolio should reflect the calculated national bets that we'd like to make on a strategic basis.

Isn't there plenty of room for growth in overseas investments for Khazanah?

We need to fully understand where we stand in terms of the stage of our economic development and our sectoral focus. It has to be a nuanced approach that distinguishes that certain sectors are more saturated while others still have large scope for efficiency gains at home.

In the case of Singapore, for example, it is a city-state with a more matured economy, no hinterland and large per capital reserves. So, it was very natural for Temasek to go out in a big way, and even then only after almost 30 years of existence.

In going abroad, again, we need to be nuanced. For TNB, we believe a lot of focus needs to go into cleaning its large debt position first, before we put capital in a big way offshore. It can however participate in operations and maintenance as a way of better utilising its human capital.

On the other hand, across the road in Bangsar, Telekom's fixed line business growth is rather flat and declining in some places. But generally, it's a good cash generating business. We sat down and said "let's look at better capital management." In this regard, the board and Datuk Wahid have done very well so far by announcing a clear dividend policy and higher dividends to boot. Because Telekom's capital structure can support it, and to supplement a more matured fixed line domestic market they are going offshore selectively.

In other words, it's different horses for different courses.

So, what's in store for the GLCs?

Our framework for GLC transformation is five-fold, with ultimate focus on raising shareholder value. First to ensure that the right "bench" or leadership in terms of the board and senior management is in place. Second, to ensure that the right strategies are in place. This would vary with each company. For UEM and MAS for example, it is about growth and building on the financial restructuring platform. For TNB and Malaysia Airports, it will have a lot of concentration on both financial and operational restructuring.

Third, we look for improvements in key systems and controls as a means to underwrite future growth and efficiency improvements. Fourth, we also look to add value in how industrial structure or groupings emerge either through our role as shareholders in sectors where we have a critical holding mass or, as a strategic national economic agency where we will argue for a more optimal industry and regulatory structure.

In TNB's case, for example, we believe there is a lot of value to be created if we consider carefully how competition and tariffs are structured, looking holistically at shareholder value, industrial competitiveness and public interest. There is an optimal position and we hope to work and present to the regulatory side of the Government to explain this in as much as we intend to drive TNB through the board of the need to exact internal efficiencies before submitting for a tariff increase.

The first principle is actually quite simple in that if the previous four is in place, the best thing that a major shareholder can do is to forebear, not to micro manage and to merely monitor and empower. We know that the devil will be in execution and this to be rightly driven by the respective management teams.

Part of this whole exercise could also result in mergers?

Yes, it could or it could involve selling out.

Have you identified these areas?

Some of them yes, but obviously I can't reveal that. The stock exchange will be after me (laughs).

What about merging the financial institutions that are GLCs?

The next phase of merger will be market driven, as indicated by Bank Negara. If it comes to that, as shareholders, we will look for a strategic fit. There needs to be meeting of minds among shareholders. Forced marriages seldom work. The experience of previous round seems to suggest that it works best where there is a clear party on top. Industry consolidation will also over time help us in some of our cross-border objectives. Maybank and Bumiputra-Commerce are local giants but are only rather medium-sized regionally, let alone internationally.

When it comes to TNB and Telekom, there is always the issue of balancing social responsibility with commercial considerations. Would you use the same template you did for MAS restructuring (separating the commercial entity from social consideration by unloading the assets and turning MAS into a pure airline operator) in these companies?

It's not a cookie cutter approach, although there are some common principles. Ideally, we need to put both these valid objectives of market and social aims in the right boxes. That seems closer to being fair to both investors and taxpayers. A common complain about GLCs is too much social responsibility, notwithstanding that the need for some corporate social responsibility is well recognised even in the most neo-liberal of markets.

One thing to note is that the national service element came about as we reached very high growth in the go-go years of the 1990s when many lucrative contracts or more entrenched monopolies were available and such national service was almost like a windfall tax packaged together. They were happy to do it, as they got this contract or were more oligopolistic and looked at it in terms of whole package.

Things have changed. Growth is more moderate and more sustainable. Therefore, some of this national service obligation may be less applicable now.

Khazanah recently announced several appointments. Is this it as far as top management of Khazanah is concerned?

There will be significantly more (hires) to support our enlarged “activist” mandate.

Is it fair to say that where you are sitting, when it comes to hiring people or giving mandates or trying to pick anyone's brains, it would be easier with people you are familiar with, have worked with or have had prior experience with?

Trust is very important. Normally, it takes time to build trust. The fact that you know that certain people have certain strengths and weaknesses is certainly part of the process. Knowing the qualities in certain people and the absence of certain qualities in others helps obviously when doing the selection but it doesn't mean that the door is completely shut to others.

Some of the hires to date have been people I have had the privilege of working with before, while others are new. We make the promise that we will give everyone a fair chance with due and proper process.

As with prospective business partners, including investment banks and consultants, that want to work with us. Again, the message is that we will try our best to be equitable in terms of access and opportunities to one and all.

But that must be tough, considering you come from Bina Fikir. You were one of the founders. Now there are all these revamp plans and obviously a lot of mandates to be gotten from GLCs. Bina Fikir will want to pitch for those mandates.

Well, it's not tough at all as there are no conflicts and in this case, it does not apply at least to date in that they have not pitched at Khazanah. Even if they did, there is no reason why they be disqualified although their hurdles are necessarily higher, as good practice dictate. Too bad for them, a tad unfair even.

Recognising potential conflicts, the first thing I did was to remove myself completely from Bina Fikir. I have sold all shares and have zero economic interest there. Moreover, for GLCs, we need to give the respective managements their due regards and benefit that, of course, they will select their business partners based on merit. There is no issue.

The fact that you have worked with them, are comfortable with them and know their strengths ... you don't know the strengths of every other investment advisor out there. So, I suppose this in itself is an advantage for Bina Fikir.

My point is that they will be based on merit. If not, how did they arrive at the top of their profession? My knowledge of them (the others) may not be perfect but that doesn't mean that we are not as open as anybody else out there ... we are. We do work with other people.

Your every move will be scrutinised as you are in a hot seat. You do know that, right?

Yes, of course and I'm not complaining ... it comes with the turf. What is important is that you know your motives are clear and proper and then you work as hard and as smart as you can towards achieving the goals. A little luck would also be welcomed.

Are there KPIs on you?

Of course. And on my senior team as well. This is the mother ship, so we must initiate the change. For those that don't perform, we are on performance contracts. If I don't perform, then I can and should be removed. It's as simple as that. We want longer tenures in general, even longer than the three years contracts, but it is good to have milestones that help to keep us honest. So, if you are good, then it is extended by another three years. Just a thought then that it is not inconceivable that Che Khalib, for example, who is not even 40 may retire at TNB. If you are still relevant and performing at optimal level where you are at, then why not?