

The Malay way of business change

Aug 18th 2005 | KUALA LUMPUR
From The Economist print edition

An attempt to revive Malaysia's underperforming state-owned firms

"YOU either execute or get executed," says Azman Mokhtar, of his mission to overhaul Malaysia's 40-odd partially state-owned firms. Last year, his appointment as head of Khazanah, the government's previously passive holding company, caused the publicly traded shares of various "government-linked companies" (GLCs) to soar. Briefly, the shares of Telekom Malaysia, the biggest firm in Khazanah's portfolio, were up by over 50%. But the shine is beginning to wear off, as investors start to realise how tough his job is.

The GLCs make up only 5% of the firms listed on Malaysia's stockmarket, but account for 36% of its market capitalisation. Yet on every measure but size, Mr Azman points out, they have underperformed. One study found them to be more highly indebted than average, to generate less profit per worker and to earn a lower return on equity. In the five years before he took over, shareholders made a total return of 3.6% on GLCs, and 7.5% on other firms in Malaysia's stockmarket index.

The biggest firms in the Khazanah stable have bureaucratic origins: they are either former monopolists, such as Tenaga Nasional, a power firm, or pet government projects, such as Proton, a carmaker. Political considerations often trump commercial ones. All GLCs, for example, favour ethnic Malays when dispensing jobs or contracts, in line with the government's policy to get more Malays involved in business. Politicians often seem to end up in cushy jobs as advisers or board members.

Mr Azman's solution is a strong dose of corporate discipline. He has appointed young, foreign-educated professionals to run Tenaga and Telekom. Senior executives are now on fixed-term contracts, with extensions and pay linked to performance. Government officials with a regulatory role have been booted off boards. Suppliers (even the Malay ones) now have to bid for contracts, rather than stitch them up in backroom deals. This new policy, Mr Azman says, cut the cost of one transaction from 100m ringgit (\$27m) to 12m.

Nationalism is also out of fashion. Last year, Khazanah sold a 5% stake in Telekom to Temasek, its Singaporean counterpart. Temasek's previous attempts to buy shares in Malaysian GLCs had been rudely rebuffed. An American now runs SilTerra, Khazanah's struggling microchip foundry; a Dutchman runs Rapid KL, which operates commuter trains in Kuala Lumpur.

Such reforms are also being adopted by the government's other investment agencies,

such as the state pension fund and a government-backed fund for Malays. Last month, the agencies jointly launched a "Transformation Manual", with prescriptions for everything from revamping boards to cutting procurement costs.

But the government is still shying away from other reforms. Big layoffs are taboo. Instead, Telekom has had to launch a voluntary redundancy scheme to shed one-tenth of its staff. Tenaga is now squeezed between costly power-purchasing contracts foisted on it by the previous government and low tariffs insisted on by the current one. And Mahathir Mohamad, a former prime minister who created Proton to be a national icon and now advises the firm, is resisting selling a controlling stake in the firm to a foreign carmaker.

At those GLCs that are still obliged to do charitable works on the government's behalf, Mr Azman is pushing for a clearer definition and delimitation of their responsibilities. Before taking over Khazanah, for example, he masterminded a restructuring of Malaysian Airlines, whereby the government agreed to absorb the losses on the carrier's unprofitable domestic routes.

In short, Khazanah is not seeking to end the government's meddling, but to rationalise it. Mr Azman still argues against selling poorly performing hi-tech firms, such as SilTerra, lest that deprive Malaysia of the associated industry and technology transfers and the jobs that come with them. Future generations, he says, might curse him for such a move. On the other hand, if he runs up a big bill for taxpayers, future generations might curse him even more for keeping SilTerra afloat.