

New management makes over Malaysia Inc

A flurry of activity marked the first year of new management at Khazanah, Malaysia's state-owned investment arm. Tough decisions have been made and tougher rules set. But the job is far from complete and success may prove elusive. Chris Leahy reports from Kuala Lumpur

DATO' AZMAN HJ MOKHTAR, managing director of Malaysia's state investment company Khazanah Nasional Berhad, peers from the window of his office in the Petronas Twin Towers at the thick haze that has descended on Kuala Lumpur.

"So much for transparency!" he says with a laugh.

KL might have disappeared beneath the smog from forest fires but Khazanah is basking in the sunlight of a fresh management approach. Once secretive and opaque, the company has transformed its approach to the outside world since Azman was appointed in May 2004, with an emphasis on greater transparency and accountability.

Much is expected of ex-banker Azman, formerly research head at UBS and Salomon Brothers in Malaysia. Announcing Khazanah's revamp in May 2004, prime minister Abdullah Ahmad Badawi described the proposals as "Nothing less than a remaking of Malaysia Inc...[we] would like to see Khazanah emerge as one of the biggest and most dynamic investment houses in the region".

In order to give rise to Badawi's rather grand vision, Azman is pursuing what he describes as a four-pillar strategy: streamlining and restructuring legacy investments, transforming government-linked companies, initiating new sector-specific cross-border investments and applying what is euphemistically called human capital management, by which he means hiring brighter staff.

The firm's website is crammed with speeches, press releases and presentations explaining this new strategy, with a penchant for coloured charts and graphs. Despite the new corporate *glasnost*, Azman is wary of too much media coverage, perhaps because of the already high expectations.

"We spent the first three months syndicating the view," he says of his efforts to delineate the new Khazanah strategy. "There was a lot of hoopla about it. You know, there's a hubris hypothesis for takeovers that the greatest predictor of overpaying for a deal is the number of times that you appear on the covers of business magazines! So I'm cautious about too much publicity."

In accordance with its four-pillared strategy, Khazanah's new-found transparency is now being transferred to the government-linked corporations (GLCs) under its control. In what is billed as the biggest overhaul of the government-controlled sector since the establishment of its national champions, Azman and Khazanah take centre stage.

War and peace

In addition to pursuing its own investment strategy and managing its own non-GLC portfolio, Khazanah, as the major shareholder in key GLCs, is also charged with implementing the changes deemed necessary by the Putrajaya Committee for GLCs (PCG), the government body established to take on the task of GLC reform and to which Khazanah acts as secretary.

Those changes include reducing the political influence exerted over GLCs and installing management deemed capable of running them independently and of executing growth strategies. Critics of many of the GLCs charge them with having over-sized labour forces and outmoded management styles, and argue that they lack ambition because of the cosseted market position they enjoy by virtue of their parentage. As Malaysia struggles to establish itself in a world increasingly dominated by globalization and a region increasingly overshadowed by China and India, some of the GLCs need to look overseas for future growth.

"You have to go out and find the investments and you have to make your companies more competitive," says Azman of the challenge facing the GLCs. If not, he says, "they'll be on the receiving end of globalization".

In its new frontline function, Khazanah has concentrated so far on what Azman describes as "wartime" activities, meaning radical changes to management and existing GLC businesses. These have included changing management teams at Telekom Malaysia (TM), electricity company Tenaga Nasional Berhad (TNB) and car maker Proton.

"I personally participated in the stabilization process," says Azman. "I called it the wartime restructuring. Now is the peacetime restruc-

Selected Khazanah GLCs Return on invested capital (%)

	2002	2003	2004	2005
Malaysia Airlines System	6.8	35.5	12.7	14.8 FY
Proton Holdings	37.7	26.8	12.3	17.6 FY
Telekom Malaysia	20.7	20.0	21.5	21.5 Q1
Tenaga Nasional	9.8	12.3	12.9	14.3 Q2
UEM World	NA	0.2	6.0	3.7 Q1

Source: Khazanah Nasional

Azman: places the emphasis on performance



turing." By that Azman is referring to the "softer" issues of implementing management strategies and guidelines, and setting performance measurement systems, described as key performance indicators or KPIs.

As part of this process, Khazanah and the PCG produced a detailed manual that was handed over in a formal seminar at the end of July attended by prime minister Badawi. The size of a telephone directory, the *Transformation Manual* is essentially a detailed handbook of procedures covering, among other things, corporate governance, performance measurement and even procurement. It's hardly the kind of approach to suggest that the GLCs are being left to their own devices.

Azman, however, is dismissive of this suggestion. "It's called a manual, yes it's prescriptive, but this is semantics," he says. "There are three underlying principles that override everything else. First, this is a national development process; second, the focus is on performance because we've thrashed out a lot of the other bits of the equation. Lastly, it's about governance. But above all, these are guidelines: pushed by the government and the major shareholder, yes, but cheered on by minority shareholders."

There is certainly a strong emphasis on performance, with one section of the manual devoted to measurement of the KPIs. Azman says Khazanah will adopt a flexible approach to measuring performance within the GLCs under its remit.

"If [managers] in their wisdom choose not to run these guidelines that's fine," says Azman, "it's not one size fits all. But if you divert from the manual too much, you need to be able to justify why."

He is also clear about the sanctions available to him. "The stick is, if you don't perform, you could be out," he says. "We say, 'Execute or be executed'. It actually sounds better in Malay! Have we used this sanction yet? I won't say directly, but take a look at recent events."

He is referring to the management changes at Proton in July, when the CEO was fired following consistently poor results and replaced with an executive committee and joint chief operating officers, pending the appointment of a replacement CEO.

The jury's out

Khazanah's overhaul of the GLCs is barely a year old, so any assessment of success is premature. Some of the challenges faced by the GLCs in making their businesses globally competitive will take years, not months, to achieve (see box). In his one-year review, Azman pointed to a 15.6% increase in total shareholder return within the Khazanah portfolio, of which the GLCs form a major part. Indeed, the share prices of some of the GLCs have risen since his appointment.

Market practitioners, however, point out that much of that increase can be accounted for by other factors, including hedge fund activity in the stockmarket ahead of a long-expected change in the currency that was finally implemented in July. There has no doubt been a halo effect from the Malaysian government's announcement that it was abandoning the US dollar peg in favour of a basket of currencies. Foreign exchange reserves surged, as did stocks on the local exchange, Bursa Malaysia, where GLCs account for more than a third of the market's value.

Confident that GLC reform is under way, Azman believes that the challenge lies as much with Khazanah itself now as with the GLCs. He appears realistic about his prospects.

"The GLC transformation framework has been launched," he says, referring to the latest PCG initiative, "now it's up to us all to make sure it has legs and doesn't lose traction."

In addition to reorganizing the GLCs, Azman has some reorganization of his own to do at Khazanah. With an investment portfolio valued at some M\$60 billion (US\$16 billion) that is clearly a large job. He claims progress has already been made. "We've refreshed and continued to reform the portfolio; made it more relevant by focusing it into sectors and geographies that we believe are relevant to Malaysia," he says.

That has meant some restructuring work at companies in which Khazanah has investments, such as semiconductor manufacturer Silterra and Malaysia Airports. Other investments, including Time and Timedotcom, UDA Holdings and CCT, are under review.

Although existing investments are being scrutinized, Khazanah has already started to close new deals under its new managing director, with investments in a power project in Saudi Arabia, the purchase of a controlling stake in Bank Lippo in Indonesia, and a minority investment in Apollo Hospital Enterprise in India. There are more on the way, says Azman. "We're building our deal pipeline," he says. "Investment is a pipeline game. Of all the deals we look at, maybe 20% to 30% may come through."

With no money forthcoming from the government for new investment, Khazanah will need to prove adept at realizing non-core assets and raising fresh capital. Gearing stood at more than 120% as at the end of 2004, a reasonably high ratio for a straight private-equity fund. Early indications are that Azman and his team have been smart about funding.

In addition to the disposal of residual stakes in non-core holdings such as YTL Power, Jardine Cycle & Carriage and Bintulu Port, Khazanah launched a clever US\$415 million exchangeable bond for toll-road operator Plus Expressway that achieved a partial sell-down as well as raising fresh capital.

Azman is unfazed by this capital challenge. "We have only one shareholder," he says, "and that will remain. But we have many funding options. We have the ability to raise debt, locally and internationally. We've just started to do that with our exchangeable bonds."