

Kuala Lumpur Business Club

The Government's Expectations of Government-Linked Companies

Dinner Address

By

**Tan Sri Nor Mohamed Yakcop,
Finance Minister II, Malaysia**

**June 11th, 2004
Kuala Lumpur**

Assalamulaikum wrb and a very good evening,

I wish to thank the organizers for the invitation to speak at a time when there is much focus on change and Government Linked Companies (“GLCs”). It is not often that so many eminent business leaders are gathered in one room and hence, in the spirit of efficiency and productivity, which is the theme of tonight’s talk, I would like to move on straight to the topic of the day, namely GLCs and managing change.

2. There are many issues, but tonight I would like to concentrate on just ten – ten principles or pointers that is, not ten commandments, as we do believe in participative government. I will cover these ten pointers in three main sections:-

(A)The basic framework for GLC changes;

(B)What the Government expects of GLCs and

(C)What GLCs can expect from the Government.

(A) Basic Framework for GLC changes

First pointer: The overall vision of economic management has not changed.

3. At a time of change, it is important to remind ourselves that, while many things may change, certain basic fundamentals remain not only very much the same, these fundamentals are, in fact, reinforced by these changes. **The economic policy initiatives of this administration are indeed designed to support the same over-arching and unifying economic vision of the nation, namely balanced**

economic growth and development with equity, and the promotion of national competitiveness within the ambit of Vision 2020.

Second Pointer: Micro-economic emphasis will shift with the times – our adaptability is our strength

4. One of the roles of the Government in economic management is to provide stable macroeconomic conditions in terms of prudent monetary and fiscal policies and other economic policies relating to trade, competition, regulation, financial system, capital markets, technology and innovation that are pro-growth and pro-business while ensuring a balanced social policy in order to share and underwrite this growth.

5. While this macroeconomic imperative of balanced growth with equity is the bedrock of long-run development and national competitiveness, it is especially pertinent to recognize, in the context of tonight's discussion, that productivity, efficiency and wealth creation are ultimately achieved at the microeconomic or firm level. Hence, our programme for the reenergising of GLCs. The firm level covers, of course, covers several major categories that can be classified as follows –private sector firms – both locally held GLCs and non GLCs and trans-national corporations (“TNCs”).

6. While the overall goal of economic development of balanced growth with equity, as established in the tenets of Vision 2020, remains our unifying vision, there is a need to recognize that, **at different stages of the nation's development, the emphasis on the economic engine of growth will necessarily change.** In fact, this ability to adapt and restructure our economic strategy and composition is one of the historical strengths of this nation. We have successfully transformed, several times since independence, from an agrarian resource driven economy to a factor-driven export-oriented manufacturing economy to a more balanced services and manufacturing economy and we are now in the process of the hardest transformation of all i.e. to move into an innovation-driven economy.

7. The crucial component of this transformation involves gains in efficiency and productivity through better use of knowledge and human capital. The quality of public services is an important enabler in this regard and hence the latest set of policy initiatives are aimed also at improving the public service delivery system and in service oriented GLCs.

Third Pointer: It is a baton relay, not an individual sprint

8. In this Olympic year, a sporting analogy is quite instructive. **Economic development is more of a baton relay rather than an individual sprint.** As nations develop in the increasingly complex global economic order, the difference between success and failure will revolve around the ability to work and bring together

many different skill sets at the appropriate time. We all know, to win a baton relay involves a great deal of team work and it involves using different strengths and emphasis at different times and at different parts of the course.

9. Hence, in a 4 x 100 metre relay, a solid, dependable athlete who reacts well to the gun is best used as the first runner to give a solid platform for the team to build upon, the second needs to be strong at making adjustments in mid-course, the third must be able to take the bend and thrive in playing catch-up and the fourth needs to have the killer instinct to finish the job. In between, the baton change must be smooth and of clockwork perfection. Timing the baton change involves almost cheating the laws of physics, as the baton is passed at a point where both runners are at the optimal speed. When perfectly executed, it is indeed both brawn and beauty in motion. The whole is greater than the sum of the parts.

10. In our national development, we have been blessed by having the right leaders with the appropriate policies at the right time. The baton changes have been incredibly smooth. The point of winning is that, in economic management, as in team sports, it is always a collective and team effort. No runner is more important or less important than the other. The baton needs to be continuously moved. To those who were part of the earlier runs, carrying the economic baton of the nation, we cannot thank them enough as they have given us the solid base and in many cases the lead to build upon. To those now been given the task of following through on the next leg,

we wish them well too – try your very best and remember to be careful as you go around the bend! - for you too will need to pass the baton safely when the time comes.

Fourth Pointer: Emphasis on one aspect does not mean neglect of the rest

11. The fourth pointer is that this emphasis on GLCs and the model of institutional shareholding with professional management does not equate to neglecting other channels of economic management. On the contrary, these developments should be viewed as parallel strategies where we will continue to support other very important agents of growth in the private sector, including owner-entrepreneur companies, TNCs and SMEs.

12. In addition to providing a stable and conducive macro economic environment, the Government continues to offer many fiscal and monetary incentives, including the availability of funds and grants for the private sector, from large TNCs to the SMEs to specific promotion of various sectors such as ICT, tourism, shipping and agriculture. On the regulatory front, we continue to move towards a more liberalized environment where we actively encourage the development of private sector firms often in competition with GLCs. Hence, Malaysia Airlines and Air Asia; Tenaga, Malakoff and YTL; Telekom Malaysia, Maxis and Digi – they are all our national champions.

13. The emphasis on GLCs vis-à-vis other private companies is *not* mutually exclusive. Indeed, it is **mutually reinforcing**.

(B) What the Government expects of GLCs

Fifth pointer: Performance, performance, performance

14. By now we are all well aware of the policy initiative announced by our Prime Minister in terms of driving a performance based culture through the use of KPIs, performance-linked compensation ("PLC") and contracts for senior management as announced on 14th May 2004. While KPIs, PLCs and performance contracts may be commonplace for many in the private sector, this represents a radical change in approach for GLCs, one that we believe will be the catalyst for change in the senior ranks and that will drive and cascade down to the rest of the organization. We have made it mandatory for all GLCs to put in place a performance linked compensation system by financial year 2005 at the latest.

15. We are aware that there are many challenges involved in the setting up of a well functioning PLC system. Indeed, if the system is poorly designed or badly executed it could well result in being the opposite of being an incentive. It is with this in mind that we have issued clear guidelines on the principles for PLC design and implementation. While it is easy to highlight all the challenges, it is also worth remembering that we would not be the first to do this; in fact, performance based compensation systems are now basic entry level requirements of best practice firms.

As the market for scarce talent becomes more intense, firms will need to be more creative in designing incentive packages in order to attract, retain and motivate talent.

Sixth pointer: exercise balance, always provide value-add

16. One caveat for those responsible for the design and approval of such PLC schemes is that we must always be scrupulously fair to all stakeholders – remember that there are portions that need to be carefully allocated between shareholders, senior management and the rest of the staff. The equity alignment needs to be correct between shareholders and management and between management and staff. This is the true meaning of corporate governance in the alignment of interests to overcome the agency problem. Remember too the simple rule that for our takings as employees and managers to be blessed, we must always provide the value-add and always think of the welfare of those that we lead.

17. In this quest for performance we must not get carried away with too much emphasis on rewards to the extent that the delicate balance and sharing between shareholders, management and staff becomes inequitable or worse, obscenely inequitable. **Balance** and **Value Add** will be the keywords to observe. The Government is respecting the governance of companies and expects this balance and value-add to be achieved through the respective Boards.

18. I want to make it clear also that PLC is not about compensation structure alone; it is an all encompassing process of,

- **identifying the strategic direction and targets for the company,**
- **aligning management's focus towards these goals,**
- **the ongoing process of review and appraisal to keep the company on track, and**
- **in the process, sharing the success of the company in terms of rewarding staff.**

It is not just about performing our present tasks more efficiently. Some of our present tasks may be useless. There is no point in attempting to perform useless tasks more efficiently! We need to identify our core objectives in the context of our strategic focus, and decide which functions to undertake and which functions to discontinue. The functions that we decide to undertake, we must perform them effectively.

Seventh Pointer: Human Capital Management ("HCM")

19. The Government expects GLCs to give greater emphasis to systemically and seriously develop their human capital and talent management. It cannot be over-emphasized that in the long run, talent management, along with the basic and tertiary education system that precedes it, is the most critical factor that will determine our nation's long-run competitiveness. The Government expects a much more structured and involved approach to Human Capital Management. This will involve a cradle to

grave approach involving selection, succession planning, coaching, leadership development, lifelong learning, careful rotation and exposure to challenging assignments and even hardship postings for it is from these hardships that leaders are made.

20. It would be a national tragedy if the promising lives of freshly minted graduates, brimming with idealism and energy, are systemically broken down over the years by a system that fails to nurture and provide avenues for growth.

21. Khazanah intends to play the role as a central agency in synergising HCM between GLCs. Hence, we could get the scenario that a Tenaga engineering scholar could well start work as a planner at Proton, then move to get operational experience in running a highway at PLUS, go to business school as a Khazanah scholar and may eventually end up as Telekom CEO, with possibly sabbaticals to run the family business or a stint in public service in between. This kind of flexible and creative arrangement is already being practiced by the best international firms.

Eighth Pointer: Selection of senior management and Boards

22. The selection of senior management and Boards in GLCs has been under much focus of late. The feed back has generally been positive. The Government as the major shareholder in these key GLCs have taken great pains to nominate candidates on the basis of the best candidate available for the job. Often times this process is

rigorously observed and executed through the proper channels of the Board of Directors and often with the assistance of specialist search firms. For example, in the process of selection in recent CEO appointments in key GLCs in MAS, UEM, Tenaga and Telekom among others involved up to five rounds of interviews, the use of search firms and candidates that came from internal and external sources, from the young and not so young. The point to be made is that there are no artificial barriers with respect to age or gender, whether from internal or external sources, and whether from financial or non financial background.

23. Granted that in the search for talent, the net may need to be cast more widely. As mentioned, the Global HCM system for GLCs through a central agency such as Khazanah is be among the key initiatives that the new Khazanah will undertake. This is an exciting and important development. Khazanah has already started to build up the data base on the talent pool. For all the brave men and women out there, who want to join GLCs, Khazanah could be your one stop centre.

(C) What the GLCs can expect of the Government

Ninth pointer: the right objectives in the right boxes

24. A basic taxonomy on the **role of Government is three-fold. First**, as **Developer** and provider of public goods, from the provision of law and order to the provision of infrastructure or services that are more social or socio-economic in nature where profit maximising private firms are less interested to undertake. **Second**, the

Government as **Regulator** in providing a level and conducive playing field. **Third**, the Government as **Investor**, where the Government owns and operates the production of economic goods and services.

25. The central thinking here is that while all three are valid and important objectives of the Government, the key is to ensure that the objectives are placed in the right boxes. This will minimize conflicts and provide greater focus for each branch of Government to engage in their respective tasks. Hence, the investment arm, where GLCs reside, will concentrate on building shareholder value, regulators will be most concerned about providing an equitable playing field and the protection of public interest, while the socio-economic development function will be most concerned in getting the best socio-economic bang for the buck. The recent changes in board composition in GLCs was in part done with this in mind, streamlining structural conflicts by removing regulators from the Boards of GLCs.

26. These developments will give rise to a need for new arrangements to address regulatory relations. In the absence of regulators on their Boards, GLCs must now be very proactive to ensure that their regulators are fully informed of their activities from the standpoint of service levels and public interest. Best practice dictates that the best firms have dedicated regulatory relations units that are one-stop shops to facilitate this process. Central agencies such as Khazanah will be expected to participate in the

dialogue between the strategic investment and regulatory/development branches of Government and advise on the optimal position from a national standpoint.

Tenth: Better regulatory and industry structures

27. Especially in the more regulated industries, it is reasonable for GLCs to expect better clarity on the regulatory framework and for the Government to drive industry restructuring by virtue of its dominant position or its supra-jurisdictional powers. Uncertainty and lack of visibility on key rules gives rise to higher risk premia and hence lower shareholder values. The Government is already working through its various ministries and agencies in this regard. Among the key sectors are electricity, telecommunications, water, and public transportation.

Senior posts in the Private Sector

28. I have outlined ten pointers to clarify on the recent policy initiatives related to GLCs.

29. In addition to the 10 points above, I would like to raise a slightly separate issue that needs to be addressed. This is the issue of access of key posts in GLCs being made available to non-Bumiputras and the not unrelated issue of the low presence of Bumiputras in key and substantive posts in non-Bumiputra controlled firms and TNCs. I believe we need to approach this in an open and holistic fashion.

30. Firstly, I must reiterate that the Government remains very committed to developing successive generations of Bumiputras who have the necessary technical, behavioral and leadership skills required to manage corporations. For GLCs and key government institutions, while we remain committed to the long run development of the Bumiputra managerial class, we will also take the lead in gradually bringing in multi racial talent, as we believe that this diversity and widening of the gene pool of talent will ultimately be of great benefit to the nation and, through greater competition, to the Bumiputra managerial class in itself.

31. However, it needs to also be recognized that in many major non-Bumiputra controlled corporations and conglomerates, as well as in some multinational corporations, senior management ranks consist of primarily or sometimes entirely of non-Bumiputras. With a few notable and commendable exceptions, access for this Bumiputra managerial class to top jobs in non-Bumiputra firms are, in reality, limited. In many cases, firms resort to tokenism to meet Bumiputra management quotas. My request to the private sector is : Please get away from this attitude of tokenism. There are enough highly qualified Bumiputras, who have the right credentials to join the senior ranks of non-Bumiputra controlled private sector companies, even as CEOs. The private sector, like the GLCs, must get the best and the brightest personnel to join them, and there are many Bumiputras who fit this description.

32. A common reply of non-Bumiputra and MNC employers is that it is difficult to get suitably qualified Bumiputras to join their firms. This is a lame excuse, since we know that there is increasingly a highly qualified and highly sophisticated class of Bumiputra managers who are ready, but are not been given the right exposure and challenging assignments in non-Bumiputra firms.

33. Recruitment of good Bumiputras is only the start; they need to be given equal opportunity to undertake challenging and choice assignments. Strong empirical research has shown that leaders and skills are mostly developed through challenging assignments and even hardship postings rather than formal qualifications and training. Hence, at a certain stage of development, what the aspiring manager needs is the chance to cut their teeth on interesting and challenging assignments. Part of this experience also includes the chance to make professional mistakes. When this happens, the aspiring manager needs to be coached and mentored regarding the lessons learnt and how to minimize such mistakes in future, not to be consigned and labelled as an incompetent, incapable of learning from genuine mistakes.

34. In the final analysis, talent management and brain gain are such crucial subjects in the context of long-run national competitiveness that I believe we need to address this seriously, openly and in the spirit of building for the future of Malaysia. Many forward looking firms and indeed countries that are far more homogenous than Malaysia are looking to replicate conditions that broaden the diversity of their talent pool. By contrast, we already have this cultural diversity as our inherent heritage. This is potentially a source of great natural advantage that we can harness.

35. As we move to replace polarization with pluralism, I strongly believe genuine efforts and leadership need to come from all sides. The Government is committed to gradually increase the number of non-Bumiputras in GLCs. I believe there is much more that can be done in the private sector to genuinely develop and groom Bumiputra managers to occupy substantive top jobs in non Bumiputra controlled companies.

36. I wish to take this opportunity also to voice out the difficulties faced by Bumiputera entrepreneurs in securing retail space in shopping complexes and malls owned or operated by non-Bumiputra controlled companies. This is indeed very disappointing. In my previous capacity as the Chairman of the PROSPER Steering Committee, I have seen first hand the difficulties faced by hardworking and very enterprising and capable

Bumiputras to secure retail space (let alone choice space) in shopping complexes. I would like to strongly urge shopping complex owners and management to seriously look into this area.

Conclusion

Going forward, we all need to work collectively together, those from the public sector, those from the private sector and those from GLCs, towards our collective goal of achieving balanced development as outlined in Vision 2020. We have no choice, really, given the present challenging global environment.

Thank you. Wabillahi taufik wal hidayah, wassalamualaikum.

(Nor Mohamed Yakcop)

June 11th, 2004.