PROMOTING TRANSPARENCY & EFFICIENCY OF SOEs
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THE MALAYSIAN EXPERIENCE

Presenter:
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AGENDA

1. Background
2. Why Transform ?
3. What were the Challenges & Priorities ?
4. How & When to implement programmes ?
5. Results…
6. Q & A
PM’S SPEECH – LAUNCHING OF GLCT (2005)

• KPI- Performance linked compensations
• Performance contracts
• Board composition reform
• Revamp of Govt Linked Companies and Govt Linked Investment Companies (GLC & GLIC)
• GLC leadership changes
The Govt is committed to ensure GLCT continues to be implemented, if anything with greater urgency and focus.

GLCs must aspire to greater heights, whether best in class or emerging as future regional if not global champions.

Source: Prime Minister’s Keynote Address at Invest Malaysia Conference 2009
MALAYSIA HAS 2 TYPES OF SOEs…

1. **GLCs** are listed on the Malaysian Stock Exchange and controlled by by Federal Level GLICs

2. **SOEs** are private companies which are wholly owned by the Government via Ministry of Finance (MoF Inc.)

- This Transformation Programme only covers GLCs companies where:
  - GLICs are either the **majority** or **single largest** shareholder
  - GLICs have ability to exercise and influence e.g.
    - Appointment of Boards and Senior Management
    - Award of tenders and contracts via Board
    - M&A, divestment, strategy, restructuring and financing, etc.
HISTORY AND EVOLUTION OF GLCs

1951 EPF established
1962 LTH established
1970 Launch of New Economic Policy (NEP)
1978 PNB established
1981 Launch of Heavy Industrialisation Programme
1985 Proton launch first model
1987 Jabatan Telekom Corporatised
1990 Lembaga Letrik Negara Corporatised
1992 Malaysian Airport and Postal Department corporatised
1994 KNB begins operations 1994
1997
2000
2005 CURRENT

1969 Maybank becomes government owned
1972 LTAT established
1979 Sime Darby is Malaysianised
1983
1987
1992
2002

Industrialisation and moving up the value chain
Rapid economic growth and privatisation
Financial Crisis
Recovery and restructuring
GLCT Programme

Malaysianised GLCs
Value adding to Malaysia’s Natural resources
Corporatised
Providing Essential Public Services
Recapitalised and Restructured
Recovering from the Crisis
Financial Institutions
Becoming internationally competitive

2001 Financial Sector Masterplan announced
2002 MAS widespread asset unbundling exercise
2005
2019
2022
2025
GLCs are major contributors to the nation

GLCs account for **5%** of national workforce

- **National workforce**
  - GLCs account for 5% of national workforce

- **Significant part of nations economy**
  - GLCs account for 5% of national workforce
  - 64% of companies listed in Bursa Saham are GLCs
  - 95% of Bursa’s total Market Capitalisation comes from GLCs

- **Mission critical service provider**
  - Telecommunications
  - Transportation
  - Energy

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<thead>
<tr>
<th>GLCs</th>
<th>Non-GLCs</th>
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<tr>
<td>5%</td>
<td>95%</td>
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<td>36%</td>
<td>64%</td>
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WHY
TRANSFORM
?
Reason #1

GLCs play a significant role in Malaysia’s economy
Reason #2

GLCs
underperforming the market
over past 15 years prior to
2005
Reason #3

Time to Vision 2020 is short (15 years left when GLCT started)
Reason #4

Increasing market liberalisation and competition
Reason #5

Malaysia is caught in the middle income trap
MAJOR CHALLENGES FACED... PRIORITIES
GLCs with different backgrounds and origin...

**Malaysianised GLCs**
Companies formed during colonial days of Malaya

**Corporatised GLCs**
Originally established as Government departments

**Restructured GLCs**
Established during the Industrialisation drive, but affected by the Asian crisis

**Financial Institutions**
Banks were established by the Government or recapitalised by the government
Turnarounds | Transformation transactions | Regional Growth
---|---|---
Malaysia Airlines | Sime Darby | CIMB Group
BIMB Holdings Berhad | TM | Maybank
Axiata
The massive gap in talent, execution skills and capabilities at GLCs
G20 LEADERSHIP GAP

2010 Gap: 3213 (54%)

Demand: 5901
Supply: 2688
Developmental vs commercial roles of GLCs?
Continued & broader support from all stakeholders
Need to enhance public sector transformation in parallel with GLCT reforms
HOW & WHEN TO IMPLEMENT THE PROGRAMMES...
GLCT Programme delivery structure

Spirit & Context of the Programme

- Long-Term Programme – 4 Phases
- Underlying Principles & Policy Thrust
- 10 Initiatives – “Coloured Books”
- Creating Champions

Governance Element

- Putrajaya Committee on GLC High Performance
- Programme Managed – TMO as secretariat
- Tracked and Monitored by GLICs and Boards
GLCT Programme based on 3 Underlying Principles…

1. **National Development**
   - 1. Equity growth
   - 2. Human capital development
   - 3. Bumiputera community development

2. **Performance Focused**
   - 1. Creation of economic and shareholder value

3. **Enhanced GLC Governance**
   - 1. Implementation of policy guidelines through GLC Boards
   - 2. Improvement of stakeholder engagement
And supported by 5 Policy Thrusts

1. **Clarify** GLCs Role
   - GLCT Programme apply to GLCs held by Federal-level GLICs.
   - Excludes state-controlled or state-linked companies

2. **Enhance** GLC Boards

3. **Strengthen** GLIC Capabilities

4. **Adopt** Best Practices

5. **Implement** GLCT Programme

Linkage to the 10 Books

Key Agents

1. GLC Mgt & Board
2. GLICs
3. Government
4. PCG/TMO
GLCT Programme aspires to create regional or even global champions by 2015

GLC Starting Point

Domestic champion
[All GLCs by 2015]

Regional champion
[Several GLCs by 2015]

Global champion

v1.0

v2.0

v3.0

v4.0

v5.0

Examples of Metrics for Success:
- Performance (e.g. Profitability, Growth, Market Share)
- Scope (e.g. Geography, No. of Markets)
- Scale (e.g. Revenues)
- Capabilities (e.g. Operations, branding, etc.)
- Resilience (e.g. against systemic and non-systemic risk)

GLC Board & Mgt to determine appropriate level of aspirations

Majority of Current GLCs

Comparably to Top Domestic Peers

Comparably to Top Regional Peers

Comparably to Top Global Companies

GLCs

Other GLCs

axiata
Darby
Maybank
CIMB GROUP

Telefónica
Microsoft

Infosys

CEMEX

Samsung

PETRONAS

Embraer

Other GLCs
DO WE HAVE THE RIGHT PEOPLE TO EXECUTE...
MALAYSIAN DIRECTORS ACADEMY (MINDA)

Upgrading Board Effectiveness and Reinforcing Corporate Governance

1. Equipping Boards with world class knowledge, mindset and skill to perform at a consistently high standard

2. Key Highlights of MINDA
   - Partnerships with both international and local institutions e.g. IMD
   - Engage best case writers to prepare examples most relevant to Directors
   - Programmes design to provide on-the-job learning and coaching

Incorporated as a non-profit company limited by guarantee under the Ministry of Finance.

Objectives - to address Board performance by equipping Directors of Companies with world-class i.e. Knowledge, Skills and Mindsets required to perform to a consistently high standard.

Strategies - Assisting Boards in focusing on their fundamental roles & responsibilities i.e. Structure, Process & Culture such as good corporate governance, long term strategy direction, performance management, development of future leaders, risk management, innovation, creativity, CSR etc.
PHASES OF DIRECTOR DEVELOPMENT

To ensure excellent performance, there are 3 main development phases:

**Onboarding**: Getting into the role effectively and efficiently.

**Performance**: Knowing what to do to get companies to perform.

**Enhancement**: Above and beyond the needs of the job, and able to lead companies towards high performance.
HOW DID WE PERFORM...
Today marks the “graduation” of the GLCT Programme, after its 10-year journey.
Policy Thrusts

i. Government clarifies GLC mandate

ii. Enhance GLC Board effectiveness

iii. Enhance GLIC capabilities

iv. GLC adopt best practices

v. PCG Secretariat implement Programme

Underlying Principles

i. Performance Focus

ii. National Development Foundation

iii. Governance, Shareholder & Stakeholder Management

Initiatives

i. PCG formed

ii. Blue book launched

iii. Official launch of the GLCT Programme

iv. First “stock-take” conducted

v. GLCT Programme launched

vi. PINTAR Programme launched

vii. GLCT Initiatives and MINDA launched

viii. Headline KPIs announced

ix. PINTAR Foundation (PF) launched

x. GLC employees townhall with YAB Prime Minister

xi. Yayasan Sejahtera launched

xii. White Book launched

xiii. GEMS launched

xiv. Second “stock-take” conducted

xv. Implementation of minimum wage led by GLCs

xvi. Inaugural GLC Open Day held

xvii. GLC Initiatives implemented

xviii. MINDA launched

xix. GLCT Initiatives and MINDA launched

xx. UMCoRS launched

xxi. UMCORS launched

xxii. Implementation of minimum retirement age to 60 led by GLCs

xxiii. GLC Disaster Relief Network launched

xxiv. Last PCG meeting held

xxv. Last LDC held

xxvi. Book launched

xxvii. Second “stock-take” conducted

xxviii. Implementation of the increase in minimum retirement age to 60 led by GLCs

xxix. Self-assessment surveys conducted for Initiative Books

xxx. Third “stock-take” conducted

Source: PCG Secretariat

Key GLCT Programme milestones

GLCT Programme Graduation

GLC 2015 Open Day held

Highest achievement in G20 Headline KPIs at 77%

Implementation of the increase in minimum retirement age to 60 led by GLCs

YAB Prime Minister reaffirmed the GLCT Programme

Burniputera Empowerment Agenda launched

GLC Disasters Relief Network launched

Last LDC held

Source: PCG Secretariat
G20 delivered strong financial performance over the past 10 years

**Total Shareholder Return**
- Grew... **11.1% p.a.**
- ...from 14 May ‘04 to 28 July ‘15, tracking the broader KLCI.

**Market Capitalisation (RM b)**
- Grew... **2.9x**
- 14 May '04
- 28 July '15
- **386**
- **134**

**Return On Equity**
- Hit... **11.0% p.a.**
- ...on average from FY04 to FY14.

**Net Profit (RM b)**
- Up... **2.6x**
- FY04
- FY14
- **9.9**
- **26.2**

**Economic Profit (RM b)**
- Up... **1.0**
- FY05
- FY14
- **-3.2**
- **4.2**

**Headline KPIs (%)**
- **72**
- **76**
- **54**
- **64**
- **72**
- **67**
- **77**
- **65**
- **45**
- 45% headline KPIs achieved in FY14.

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1. FY14 extraordinary break-up basis adjustments due to the restructuring of MAS have been excluded to provide a fair view of operational performance
2. Economic Profit started being tracked since the official launch of the GLCT Programme in FY05

Note: In G20’s TSR & market capitalisation computation, UEM Sunrise (TSR only) & UEM Edgenta (previously known as UEM Faber) are used as a proxy for UEM Group Berhad while MAS has been excluded due to its delisting

Source: G20 annual reports, G20 submissions to PCG Secretariat, Bloomberg and PCG analysis
GLCT Programme 2005 – 2015: 10 achievements – a perspective

1. **Completing unfinished business** – post-1998 Asian Financial crisis

2. **Transforming erstwhile underperforming GLCs**
   – successfully reversing decades of underperformance
   – significant improvement in competitive positions

3. **Superior financial performance and prudential risk and financial management**

4. **Better distribution of returns**
   – dividends and taxes

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<th>Excluding GLICs, G20 paid...</th>
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<tr>
<td>RM 108.6bn</td>
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<tr>
<td>In dividends</td>
</tr>
<tr>
<td>RM 62.7bn</td>
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<tr>
<td>In taxes</td>
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5. **Better corporate governance: Doing the right things, in the right way**

6. **Development of human capital and leaders**

7. **Inclusion, stakeholder delivery and corporate social responsibili**

8. **Leaders in restructurings, transformative transactions and innovative financing**

9. **Internationalisation and strategic returns**

10. **Catalysing national development**
GLCT Programme 2005 – 2015: 10 gaps and challenges – a perspective

1. **Unevenness** - outliers in the Programme

2. **Stagnation and risk of relapse** - flat earnings, diminishing ROE and lower KPIs achievement, difficult to sustain a high level of performance let alone outperformance for long periods.

3. **More challenging business and external environment** – External and domestic economic and socio-political environment. Increased protectionism, excessive liberalisation incl. TPPA.

4. **Limitation of scope** - could not cover the whole universe of GLCs.

5. **Limited impact on industry restructuring in certain sectors** – e.g. automotive, semiconductors and airlines.

6. **Crowding-out vs. crowding-in** – getting the balance right, divest non-core assets, collaborate with the private sector

7. **Gaps in catalysing entrepreneurship** - numerous programmes through VDPs, carve-outs, partnerships. More work is being undertaken under Bumiputera Empowerment Agenda (BEA) programmes.

8. **Talent, leadership and culture** – beware of complacency and hubris, potential crowd-out of scarce managerial and potentially entrepreneurial talent.

9. **Gaps in inclusion initiatives** – limited impact on gender and race inclusiveness.

10. **Innovation capacity deficit**
Thank You!