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Malay Entry into Business through Scaling the Heights of Corporate Malaysia from mid-1980s – An Assessment

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Abstract: The aim of this paper is in identifying and analysing, from an economic perspective, the policies, programs and instruments the government used in promoting Malay entry into business, the form of this entry, including of rent-seeking, the extent to which Malays have scaled the heights of Corporate Malaysia as well as of the factors accounting for the success or failure of this agenda in the post-1985 period after the launch of the corporatisation and privatisation era. The discussion on the performance as well as of the key problems and issues encountered from the country's use of the corporatisation or privatisation route to promote entry, is also combined with a similar discussion on its use of: (a) government linked investment companies (GLICs) in promoting Malay entry into business from an almost non-existent level in 1957, (b) the private finance initiative (PFI) or the build, lease, maintain and transfer (BLMT) model in promoting entry as an owner-manager in the era of corporatisation and institutional fund management, as well as (c) multiple instruments in aggressively promoting entry within an industry or sector with multiple goals.

Keywords: Affirmative action, corporatisation, privatisation, ownership and control, capture of commanding heights
JEL classification: O15, Z00

1. Aim of Paper, Definitions, Use of Data and Methodology

Reducing inter-racial economic differences between Malays and other members of the indigenous community (referred to here for brevity as Malays, given their pre-dominance) and non-Malays (comprising mainly of Chinese and Indians), has been a major plank of government policy from independence in 1957. The explicit target then was the eradication of rural poverty, and hence in raising income of poor Malays

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concentrated in agriculture. Its implementation was not by cash transfers but through a build-up in the asset base of rural Malays. Hence, the number benefiting each year was limited. The government also failed to articulate more clearly its agenda on distribution. This may partly account, given rising and divergent expectations, for the outbreak of race riots in 1969. With the launch of the New Economic Policy (NEP) soon thereafter, there was now a radical shift in goal, aimed at restructuring society to reduce, if not eliminate, the between-race differences in ownership, employment and education as well as to eradicate the within-race poverty, with ambitious targets set to be achieved within a twenty-year period. There has been an explicit or implicit extension of the time horizon of the programs pursued to realise the targets, either due to a failure to achieve or a reinterpretation of the targets.

Promoting the entry of Malays into business as a manager and later as owner has also been an explicit or implicit goal of the Malaysian government within its race-based affirmative action (AA) agenda.[1] The key focus of this paper is on the programs, policies and instruments used to promote entry during the country's corporatisation and privatisation[2] era in the aftermath of the economic crisis experienced first during the mid-1980s and thereafter in the late 1990s.[3] Malay entry into business in the pre-1985 period, with Malays emerging as the dominant player in plantation and banking is dealt with in Thillainathan (2024). The emergence from 1981 of Perbadanan Nasional Berhad (PNB) as the dominant institutional fund is dealt with in this paper. The government's controlling interests in public listed companies (PLCs) in the plantation, mining and banking industries were vested in it. The underlying shares in these PLCs were then used to float unit trusts and mobilise Malay savings on a massive scale.

Given the length of the period and complexity of the subject covered, every effort has been made to minimise any overlap in content and issues discussed, to distinguish differences, if any, between periods and on inferences drawn and trends discerned, as

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[1] Malaysia's goal with respect to the entry of Malays into business is one of promoting them as owner operators or as managers. We place reliance on risk taking as the basis to distinguish between an owner manager and a manager. In Malaysia there is a preponderance of Chinese businessmen primarily due to their willingness and propensity to take risk. We have chosen not to draw the distinction as one between an entrepreneur and a manager. John Zinkin, an eminent author on the subject of organisation and management, has chosen to distinguish an entrepreneur as one who has the ability to create new sources of revenue by finding new solutions to old problems, satisfying latent demand or creating new demand. Meanwhile, he treats a manager as one whose focus is to extract value managerially from servicing of an existing demand through increasing productivity and/or maximising efficiency. Malaysia is a developing economy which is drawing or operating on the existing state of knowledge and technology to produce goods and services to meet existing or known demand efficiently/optimally by operating along and not within the production possibility frontier. Very few businessmen may have the capacity or know how to innovate and expand that frontier by discovering better ways to produce and meet demand or by discovering new sources of demand and supply.

[2] There is no attempt in this paper to discuss whether the goal of a privatised or corporatised entity is to maximise shareholder value or stakeholder interests. Readers interested in the distinction between privatisation and commercialisation are referred to Rasiah et al. (2017) which specifically examines the role of civil society organisations in contesting healthcare commercialisation in Malaysia.

[3] The government launched its corporatisation and privatisation program from the mid-1980s. With the outbreak of Malaysia's mid-1980s economic crisis, it placed a great deal more reliance on this program to promote Malay entry into business. For this reason and for ease of reference, we have taken 1985 as the launch date of this program.

well as ensure consistency in the methodology and data used. A key aim is to ascertain the direction and not necessarily the magnitude of change.

With the outbreak of the mid-1980s economic crisis, the government embarked on corporatisation and privatisation to promote the entry of Malays into business. The crisis was caused, at least in part, by the aggressive expansion of the public sector from the mid-1970s, to support economic growth and the race-based affirmative action agenda, one pursued in the midst of weak external demand. To increase Malay ownership and entry into business into the corporate sector, more reliance was now placed on the corporatisation and privatisation of existing SOEs as well as on an equally more aggressive provision of government-supplied services and facilities on a corporatised and privatised basis on a build own operate (BOO) model or on a build operate transfer (BOT) model.[4] These were until then provided by entities which were operated as departmental enterprises or statutory authorities. With respect to education, to admit more non-Malays into government-owned tertiary institutions, entry into this industry by the private sector was also liberalised.

There was a massive improvement in sentiment and a boom in private investment, attributed in part to the corporatisation and privatisation drive, and in part to the two-pronged shift in strategy, and one that was also accompanied by a relaxation of quota on equity allocation, a massive tax cut, the reform of the labour market to make it more flexible, and by the Plaza Accord-induced massive appreciation in East Asian currencies (Thillainathan & Cheong, 2016). Malaysian investors chose to invest in privatised activities and East Asians in manufacturing.

The outbreak of the Asian financial crisis (AFC) in 1997 (which was aggravated by its mismanagement) (Cheong et al., 2024), led to the failure of several Malay-owned or controlled privatised enterprises and their restructuring into Malay-managed corporatised enterprises. Though ownership is now vested substantially with the public sector, we note that the controlling stakes in PLCs were held almost wholly through government linked investment companies (GLICs), which are government-controlled but owned ultimately by the government or an institutional fund, such as PNB and the Employees Provident Fund (EPF). A subsidiary of a GLIC is more commonly referred to as a government linked company (GLC) in Malaysia. We use the term SOE more broadly to cover a business enterprise that is operated as a government department, a statutory authority, a company, a GLIC or as a GLC. A list of key PLC subsidiaries of GLICs in 2010 are set out in Table 4.

As the GLICs are quasi-sovereigns, we also examine the extent to which their better credit standing gave them an advantage in bidding for businesses, including over Malay

[4] A corporatised and privatised entity can be operated on a BOT or BOO basis. Where a concern has been awarded a concession to start a new venture in power generation, broadcasting or to operate a toll road or a port, this is typically for a fixed period on a BOT basis to build, operate and transfer the assets (at their market value) to the government on expiry of the concession, subject to an extension at the government's discretion. On the other hand, concessions have been awarded on a BOO basis in the education and healthcare sectors. In the case of an existing SOE, on its partial privatisation, it has continued to operate on a BOO basis, except in the port sector. In the telecommunication sector, each spectrum renewal has been on a periodic basis. To date no existing operator has failed to secure a spectrum renewal and hence use of its existing assets.

owner-managed enterprises. The paper also attempts an analysis of the risks a GLIC or GLC is exposed to, given the separation in their ownership from control.

From 2006, to once again increase the opportunities of Malays to operate as owner managers, the government also relied on the build lease transfer (BLT) model or the build lease maintain transfer (BLMT) model, more commonly referred to as the private finance initiative (PFI), to develop government premises and facilities. The government continued to rely on restrictive licensing practices as well as active government support and subsidy as key instruments of this policy. The large GLICs and GLCs, especially those in the utility, mining, transport and infrastructure sectors were also required to undertake vendor development programs as well as continue to award contracts to promote Malay entry into business and to develop SMEs.

After a review of the aim, definitions, methodology and data used at the outset, the paper attempts an estimate of the indicative size of Malay entry into modern business during the era of corporatisation and privatisation, the form that entry took as owner or manager, and the organisational mode adopted. The paper ends with an attempt to draw conclusions and lessons. A discussion of the policies, programs and instruments used in facilitating and implementing the entry as well as of the factors that account for their success or failure are dealt with in the main text of the paper.

To quantify the likely size of Malay entry and the form it took, the only available but most comparable data are for public listed companies (PLCs) by market capitalisation,[5] by the scale of operation for an entity which is not a PLC or by bond issue size for infrastructure ventures, the principal if not the only source of infrastructure borrowings (Thillainathan, 2021). With respect to PLCs, due to a constraint of data, our findings apply at best to the top 100 PLCs. But this should not pose a problem given their overwhelming share. In 2010 for instance, of the market capitalisation of all PLCs (958 then),[6] the share of the top 100 was 81.67%. Even that of the top 20 was an astonishing 53.32% (Hassan, 2012, p. 39).[7] On corporatised provision of infrastructure facilities, as at end 2019, 24.3% of overall economic activities was accounted for by infrastructure, using debt as a share of GNP, a significant number (see Table 3).

Hassan's 2010 data underlined the dominance of the top 100 PLCs. To gauge the importance of PLCs relative to non-PLCs, the only data are for the 1968 to 1974 period (Tan, 1982). It may still be relevant given the slower pace of change of business organisations and as PLCs are typically better placed to access funds from the public markets. Tan found that in manufacturing, proprietorships and partnerships accounted for 64.2% and 21.6% of all establishments. But the average sales of the public limited company were 4.4 times that of a private limited company, 40.1 times that of a partnership and 202.3 times that of a proprietorship (Tan, 1982, Table 6.3). "The same picture held for the mining and construction industries, though the contrasts were not as striking, and the numerical distribution of establishments … was more

[5] The data on ownership and control of the top 100 PLCs for the year 2010 used in this paper were collected and tabulated by Hassan (2012). The data for all PLCs in the property and construction sectors were also collected by him in a separate exercise.

[6] The total market capitalisation of the 958 PLCs in 2010 was RM1,284 billion.

[7] None of the other works cited here gave the size of the PLCs studied relative to all PLCs.

even" (Tan, 1982, p. 202). In the distributive trades, proprietorships made up 88.9% of all establishments, "but their average turnover was the smallest …" (Tan, 1982, p. 202). Even with respect to limited companies, "9.3% of the companies sold 76.0% of the total value, while 68.5% of the companies sold 6.7% of the goods" (Tan, 1982, p. 227). Using data on PLCs to gauge the entry of Malays into the more modern, bigger businesses, may therefore not be misplaced.

In this paper, we have taken a PLC to be owner or part-owner managed by a Malay, based on the methodology of Berle and Means (1932), popularised by La Porta et al. (2000). In adhering to this methodology, Hassan (2012) has used 20% as the minimum shareholding threshold to identify a shareholder of a PLC as its ultimate controlling shareholder (UCS), where the rest of the shares are held widely. In the presence of a few substantial shareholders (with no joint control by two or more of these large shareholders), the threshold has been set at a higher level to deem anyone as the UCS, again depending on how widely the rest of the shares are held.

A SOE has been taken to be Malay managed, if its chief executive and the majority of directors on its board are Malays. With the passage of time, the proportion now of SOE managers and employees who are Malays may be well above 50%. It is only to be expected that the racial composition of managers and employees of an entity will be mixed, unless its customer base is almost exclusively of one race or religion. We also note here that a few of the more successful Malay businessmen have been found to employ Chinese in senior management positions in significant numbers.

The use of a SOE to promote the entry of Malays to operate a business in the modern sector is clear from a reading of the NEP. The government's privatisation agenda also makes it clear that the government was contended to create a class of Malay businessmen or managers, by corporatising or privatising a government-owned enterprise or a government provided facility or service. Whether a facility, good or service provided by a government is to be deemed as a business activity operated by a manager, should not depend on the enterprise mode used in organising its provision. Whether it should be a department, a public authority or a company, has changed over time, from the time of independence to now, dictated by considerations of accountability and flexibility. Neither should it depend on whether what is provided is tax-financed or paid for by the consumer, as that will depend on whether what is supplied is a private good, a public good or a merit good and on their associated externalities and not only on excludability or ownership and certainly not on the chosen organisation mode.

2. Scaling the Heights of Corporate Malaysia through Corporatisation and Privatisation

We note that the government's attempt to promote the entry of Malays as managers of new SOE ventures in manufacturing and trading soon after the NEP's launch was a big failure. Thereafter, Malay entry as managers of plantations and tin mines through an aggressive takeover of existing British-owned enterprises has been a success. No attempt was made, outside of plantation and banking (Thillainathan, 2024), to take-over any other enterprises operating in Malaysia, to conserve on scarce resources and

know-how. But the government also moved aggressively to acquire a substantial (but not necessarily a controlling) interest, in the shares of new manufacturing ventures (on a call option basis, but without the payment of any premium), or in any companies seeking to expand through a new issue of shares on the stock exchange (at a discount to the market price). Malaysia's attempt to make these acquisitions through massive borrowings, as well as to acquire shares on a preferential basis, stretched government finances, undermined private investment and probably led to Malaysia's mid-1980s economic crash (Thillainathan & Cheong, 2016).

In the face of this crash and its limited success in promoting Malay entry into business, the government launched its program of corporatisation and privatisation. The development of a Malay business and managerial class in fact received a boost from the government's decision to run its SOEs and more importantly, to re-organise the provision of its facilities and services on a corporatised basis, to be operated by Malays as owner managers, part owner-managers or as managers. This minimised its adverse impact on the private sector, as privatisation targeted a government-owned or operated facility. It also reduced reliance on private enterprises to reserve shares to achieve the 30% Malay equity ownership target and in fact provided more opportunities for Malays to manage and operate businesses.

The privatisation drive led to a dramatic change in Malay entry into business by the dawn of the AFC and thereafter. As shown in Table 1, by 1997, no less than 13 of the

Table 1. Malay participation by number of PLCs as owner manager or manager

Number of PLCs by ranking	Top 10 PLCs	PLCs >10 to 20	Top 20 PLCs	PLCs >20
Pre-AFC 1997				
Malay owner managed			7	
PNB owned Malay managed			2	
SOE Malay managed			4	
Post-AFC 2010				Ranked by
Malay owner managed	0	0	0	number
PNB owned Malay managed	2	0	2	30, 53, 55,
SOE Malay managed	4	4	8	56 & 87

Notes: (1) In 1997, the ultimate controlling shareholders (UCSs) of PLCs and their ranking, denoted by the symbol @, were as follows:

Malay owner managers: United Engineers (Malaysia) (UEM) @6;
RHB Capital @7;
Renong @8;
Perusahan Otomobil Nasional (Proton) @16;
AMMB Holdings @18;
Rashid Hussain @19 and
Commerce Asset Holdings @20.

(2) As per Hassan (2012), the market cap of top PLCs as a share of all PLCs in 2010 were as follows:

Top 10: 36.1%
Top 20: 53.3% and
Top 100: 81.7%

Sources: See Gomez (2017) for 1997 & Hassan (2012) for 2010.

top 20 PLCs, were Malay owned and or Malay managed. Of these 13, seven were under the control of a Malay owner-manager, another two (Maybank and Sime) was owned by Permodalan Nasional Berhad (PNB) (the Malay institutional fund) and Malay-managed, and the balance four were GLCs and Malay-managed (Gomez, 2017). In 2010, no Malay individual was the ultimate controlling shareholder (UCS) of a top 20 PLC. PNB, however, remained as the UCS of two of the top 10 PLCs which were Malay-managed. Government linked investment companies (GLICs) which included the institutional funds were, other than PNB, the UCSs of four more of the top 10 PLCs and four of the next 10 top PLCs – all Malay-managed. Interestingly, these Malay managed PLCs, with a GLIC as the UCS (of which PNB was one), accounted for about 35% share of the top 100 PLCs by market capitalisation. The corresponding share of Malay owner-managers was only 1.32% of the top 100 PLCs in 2010, and were the UCSs in six PLCs, ranked at 30 to 87[8] (Table 4) (Hassan, 2012, p. 65).

The property and construction sectors provide an interesting case study. As shown in Table 2, the preferential access accorded to Malays, has led to a higher ownership stake but not necessarily to more management control. Of the property sector's total market capitalisation, Malay owner managers only accounted for a 5% share. Managers under the control of GLICs accounted for a share of 45%. Of the seven property PLCs that ranked among the top 100 PLCs, four were GLIC-controlled. Interestingly, of the top government-controlled property PLCs, almost half by market capitalisation were Chinese-managed. Of the construction sector's total market capitalisation, Malay owner managers only accounted for a 3.6% share. Managers under government-controlled GLICs accounted for a share of 40.5%. And even more interestingly, about 85% by market capitalisation of the top government-controlled PLCs in construction were Chinese-managed. From the data given more fully in Table 2, the GLICs, which are ultimately owned by the government, have been more willing to go for ownership and management control. On the other hand, the GLICs, which are ultimately owned by the institutional funds, such as EPF and PNB, have been less willing to risk their capital or push the government agenda for more Malay management control. Unlike PNB and EPF, the government-capitalised GLICs have been more willing to deploy Malay managers in the property sector, probably because the widespread use of the fixed price contract enables a developer to pass on the price risk to the purchaser and the construction risk to the contractor.

In an analysis of construction-related contracts awarded in certain water and sewerage system projects, interestingly Tan (2015) has found that, contrary to popular perception, the majority of the contracts (in value terms) awarded even by the public sector, has been to Malaysian ethnic Chinese contractors, presumably based on their ability to perform and deliver, especially on more sophisticated jobs. Of the contracts awarded to Malays, it is not unusual for some to be sub-contracted to Chinese contractors.[9]

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[8] MMC Corporation at number 30 had a market value of RM8.8 billion with Syed Mokhtar Al-Bukhary, the UCS with 43% of the shares. Four of the other PLCs ranked 53 to 66, had a market value of RM3.1 to 3.9 billion, with the respective UCSs owning a stake that ranged from 38.6 to 54.1%. The sixth ranked at 87, had a market value of RM2 billion with the UCS's stake at 26.76% (Hassan, 2012, Table 4.15).

[9] A management consultant is of the view that such sub-contracting is still common.

Table 2. Size of Malay ownership and control of PLCs in the property and construction sectors by market capitalisation (%)

Form of entry	Property sector	Construction sector
Ownership at sector level of GLICs	45.0	40.5
Ownership and management of top four PLCs share	39.6	73.2
Govt-owned GLIC as UCS	22.3	5.9
– Malay-managed	22.3	5.9
– Chinese-managed	–	–
Institutional fund-owned GLIC as UCS	17.3	34.2
– Malay-managed	–	–
– Chinese-managed	17.3	34.2
Malay owner managers	5.0	3.6

Notes: (1) The share of the 86 PLCs in the property sector by number of all PLCs was 9%, and by total market capitalisation was only 4.3%. The seven which made it into the list of top 100 PLCs accounted for a 52.4% share of the sector's market capitalisation. Of these seven, four were under government control, with a corresponding sector share of 39.6%. Of the sector's total market capitalisation, Malay owner managers only accounted for a 5% share. Managers of government-controlled GLICs (referred to as government-linked investment companies), owned ultimately by the government or an institutional fund, accounted for a share of 45%. Interestingly, of the top government-controlled property PLCs, almost half by market capitalisation with an institutional fund as the ultimate controlling shareholder (UCS), were Chinese-managed.

(2) The share of the 47 PLCs in the construction sector accounted for 4.9% by number of all PLCs and 3.74% by total market capitalisation. The six which made it into the top 100 list accounted for 82.2% of the sector's market capitalisation. Of this six, three were under government control, with a corresponding sector share of 40.1%. Of the sector's total market capitalisation, Malay owner managers only accounted for a 3.6% share. Managers of government-controlled GLICs accounted for a share of 40.5%. And even more interestingly, about 85% by market capitalisation of the top government-controlled PLCs with an institutional fund as the UCS, were Chinese-managed.

(3) Note that in Table 2 there is a difference of 33.1% between the market capitalisation of the top four PLCs in construction and that of the government-controlled PLCs in this group, as the top PLC YTL, is Chinese-controlled. There is no such difference in the top four PLCs in the property sector as all are government-controlled. Gamuda was taken as government-controlled. PNB only had a 12.2% stake, but it has been deemed as the UCS at the 20% threshold as other government-controlled entities held a further 11% stake. The rest of the shares, including a stake of 6.9% held by individual Malay shareholders, are widely-held.

(4) The share of market capitalisation of PLCs in a sector, of which the government-controlled GLICs are the UCSs, have been estimated based on market value of all shares issued by the PLCs of which the GLICs are their UCSs. On the other hand, the share of market capitalisation of the four top PLCs of which the GLICs are the UCSs, have been estimated based on market value of all shares issued of only these four PLCs.

Source: Data on ownership and control of PLCs in the property and construction sectors were compiled and analysed in 2012 by post graduate student, Hassan Bati Wotiye at the Faculty of Economics and Administration, University of Malaya. He also did his MEc dissertation on *Ownership and control of public listed companies* (*PLCs*) *in Malaysia: The impact of the New Economic Policy* (*NEP*) in 2012.

Table 3. Entry of Malays into infrastructure activities: Some key data (%)

Sub-sectors	As % of capacity Malay owner managed	As % of capacity Malay managed	As % of PDS outstanding of infrastructure sector Malay managed	Debt outstanding as a share of GNP
Toll roads	25.0	67.0	19.0	
Power generation	33.0	50.0	27.0	
Network	0.0	100.0		
Telecommunications			7.0	
Ports			2.2	
Of which owner managed			50.0	
MRTs (mass rail transit)			30.8	
Water			7.2	
Total infrastructure				24.3

Notes: (1) On rationale for use of public debt securities (PDS) as a size measure, see Thillainathan (2021).
(2) Bank debt outstanding as a share of GNP was 120%; PDS outstanding as a share of GNP was 47%; so, infrastructure to overall activities as a share of GNP is 24.3%, as infrastructure share of PDS outstanding was 41%.

Source: Thillainathan (2021 & 2022).

In respect of corporatised or privatised infrastructure, the over-riding goal of the government post-AFC, has been in promoting Malay entry into business, either as managers or as businessmen, without paying as much attention as to whether ownership is ultimately with the public or private sector (Table 3). Of the total kilometre of toll roads, only about a quarter of the concessions are currently owned and operated by Malay businessmen, with almost two-thirds owned and operated by Malay-managed SOEs.[10] In the power sector, Malay-managed SOEs own and operate wholly the distribution and transmission networks and almost 50% of the generation capacity. Malay businessmen own and operate about one-third of the generation capacity. The port sector is the exception. Ownership of the public sector is now minimal. Using public debt securities (PDS) outstanding as an indicator of size, Syed Mokhtar Al-Bukhary, MMC Corporation's controlling shareholder, has emerged as the dominant player, with close to a 50% interest. The rail and water sectors, which are wholly Malay-managed, account for 30.8% and 7.2% of corporatised infrastructure activities (based on PDS outstanding).

The rapid emergence and dominance of Malays, first as owner-managers and thereafter as managers, within the country's business world is readily evident from the data set out in the above paragraphs. For the pre-AFC period, from the available data on market capitalisation of the top 20 PLCs, the dominance of Malay-owned and or Malay-managed PLCs is clear. For the post-AFC period, from the more detailed data available

[10] Note that Malay ownership of about 85% in the toll road and power generation sub-sectors are well in excess of the broad 30% target set for Malay participation in the modern sector.

on the top 100 PLCs, the share by market capitalisation of Malay-owner-managed PLCs has shrunk substantially. That of Malay-managed PLCs, whether owned by SOEs or Malay-controlled institutional funds have shot up, as set out in the ensuing section. Interestingly, Petronas which ranked 186 in the *2020 Global Fortune 500 List*, was not a PLC, and therefore does not feature as one in the list of top 100 PLCs. That this can make a massive difference to the data on Malay entry into business should be readily evident from a comparison with Maybank, which has been the number one Malaysian PLC by market value. Based on annual reports, Petronas profits in 2020 were 5.3 times that of Maybank.

3. Programs, Instruments and Policies

3.1 Government-Linked Investment Companies (GLICs): Opportunities and Risk

In the post 1985 era, the government has ceased (with Bursa Malaysia Bhd as the one exception), to own or operate corporatised enterprises. Ownership of existing enterprises has been handed over and new venture concessions are now increasingly awarded to GLICs. Of the five government-controlled institutional funds, even the Employees Provident Fund (EPF) which continues to operate primarily as a portfolio investor, has emerged as a substantial and controlling shareholder in several PLCs. Of the institutional funds, we note here that all except the pension fund of the civil servants (KWAP) were set up before 1985. The PNB had already emerged as the dominant institutional fund by 1981 after it acquired at cost all shares that the government had held as a trustee of the indigenous communities. (Low, 1985). PNB was also allowed to take over government-controlled Maybank in exchange for its scandal-hit Bank Bumiputra which Petronas had to buy (a bailout indeed), under a “complex RM2.49 billion arrangement” (Wain, 2012, p. 149). The other Malay-owned institutional fund manager, the Pilgrims Fund (LTH), was also operating from 1983 the country’s first Islamic Bank, Bank Islam.

Several of these key GLICs are continuing to invest funds, either singly or jointly, and consciously or unconsciously, thus enabling Malays to emerge, as a substantial or even as the ultimate controlling shareholder (UCS) in top 100 PLCs. This has enabled these PLCs, except for a few, to be Malay-managed and governed. On the role Malays play as a manager of certain key businesses, we also dwell here briefly on the extent to which this has been facilitated by funds mobilised from Malays, non-Malays and from the government, from activities of GLICs, on the nature of the resulting risk and on the effectiveness of the capital managed.

The GLICs are all of disparate size. One, Khazanah Nasional Berhad (KNB), is a federal government agency. Three are only agencies of state governments, namely the Johor Corporation, Selangor State Economic Development Corporation (SEDC) and State Finance Secretary Sarawak.[11] The fifth, Petronas, is the sole owner and manager of the country’s oil and gas reserves. Three of the five institutional funds are retirement

[11] Every Malaysian state has a SEDC. Only three are worthy of any mention, namely those belonging to the states of Johor, Sarawak and Selangor. They are much smaller than KNB. As set out in Table 4, the Johor Corporation has three PLCs in its stable. The Sarawak SEDC is a major player in the energy sector, second only to the national utility, Tenaga Nasional Berhad. The Selangor SEDC has one PLC, one that is not a top 100 PLC.

funds, namely the EPF, the Kumpulan Wang Persaraan (KWAP) and the Armed Forces Fund (LTAT). And two are saving-investment vehicles, namely PNB and LTH. All five are federal entities.

The manner in which GLICs have facilitated the entry of Malays as the dominant player in the fund/asset management industry and even as a manager of certain key businesses is examined here. In 2010, the investment of the GLICs, as a share of market capitalisation, of the top 100 PLCs on Bursa Malaysia, was 34.85%.[12] The corresponding share of each individual GLIC, excluding the state-level GLICs, were as follows: PNB 11.08%, KNB 7.79%, Petronas 7.22%, EPF 6.04%, KWAP 1.51%, LTH 0.63% and LTAT 0.57%.[13] On the other hand, the total funds under management by private sector asset managers, as a percentage of the market capitalisation of Bursa Malaysia, was only 28.5% (Securities Commission, 2010, Table 1, pp. 6–50), equivalent to 34.88% of the market capitalisation of the top 100 PLCs. We note however that funds under private sector management includes funds sourced from EPF, with a part of these funds invested in other asset classes.

The funds invested by PNB, LTH, KWAP and LTAT (which amounted to 13.8% of the market value of the top 100 PLCs in 2010), have been mobilised predominantly from Malays. A substantial share of EPF's retirement savings, on the other hand, has been mobilised from non-Malays. Funding is less of an issue with KNB and Petronas.[14] As the owner and steward of key national assets with proven cashflows and enjoying the government's balance sheet support, they have less problem in accessing the debt market. Both PNB and LTH are unique institutions. PNB established in 1979, has been setting up and managing unit trusts, to mobilise retail savings of Malays to invest and trade in shares reserved for them. This was to ensure that such shares, which were acquired at below their market value, are not sold for a quick profit, as had happened in the past. The much smaller LTH was set up in 1962 to promote savings and investment of members to undertake their pilgrimage. The EPF, set up in 1950 as a provident fund, manages a compulsory defined contribution plan (DCP) for non-civil service employees to provide its members retirement benefits. LTAT, set up in 1972, is akin to EPF. It runs a DCP for the mostly Malay members of the armed forces. With government financing of its pension obligations initiated in 1991, KWAP now manages the (pension) fund of the predominantly Malay civil servants. The investments of KNB are, on the other hand, in corporatised SOEs and certain restructured private enterprises, typically vested in or acquired by KNB. Petronas, with its energy resources, has ventured into both upstream and downstream activities, as an investor-cum-operator.

The SOEs among the top 100 PLCs which are Malay-managed, are now owned by the GLICs (Table 4). This means that these PLCs, including those in utilities and transport, which were all wholly government-owned before, are now government-owned only indirectly. But the size of ownership of these PLCs by GLICs jointly, and in

[12] The direct and indirect shareholding of the government, held through these seven GLICs, as well as other government entities, in fact amounted to 43.73% by market capitalisation and 33.83% of the shares on an unweighted basis (Hassan, 2012, p. 52).

[13] This is only a part of their total portfolio of investments, as is certainly the case with Petronas, EPF and even PNB and KNB.

[14] Petronas and KNB were established in 1974 and 1991.

Table 4. Percentage (%) of shares held in the top 100 PLCs as the ultimate controlling shareholder (UCS) by a GLIC and Malay owner managers as well as shareholding of all GLICs in 2010

	Stock name of PLCs & rank	Ultimate controlling shareholder (UCS)	UCS's share-holding	Shareholding of all GLICs
(A)	**Malay Managed PLCs**			
	Khazanah Nasional			
1	CIMB Group Holdings @1		29.15	47.39
2	Axiata Group @8		41.22	66.30
3	Tenaga Nasional @11		35.63	73.25
4	PLUS Expressway @13		52.29	82.11
5	Telekom Malaysia @24		32.25	74.92
6	UEM Land @28		69.10	74.73
7	Malaysian Airline System @36		69.37	86.78
8	Malaysia AirportsHoldings @38		54.00	80.32
9	Proton Holdings @78		42.74	81.29
10	Time dotcom @91		54.78	50.76
11	Pos Malaysia @94		32.21	56.27
	MOF Inc			
12	Bursa Malaysia @51		37.62	49.91
	Petronas			
1	Petronas Chemical @5		64.35	
2	Malaysian International Shipping Corporation @10		62.27	
3	Petronas Gas @14		60.66	
4	Petronas Dagangan@25		69.85	
5	Marine & HeavyEngineering @29			75.33
6	KLCC Property Holdings @63		51.82	78.03
7	Bintulu Port @74		32.79	94.47
	Employees Provident Fund			
1	RHB Capital @19		46.38	54.13
2	IJM Corporation @31		19.38	37.72
3	IJM Land @58		21.25	74.26
4	Malaysian Resources Corporation @72		41.53	53.38
5	Media Prima @75		19.82	43.73
6	IJM Plantations @80		23.14	83.45
	LTAT			
1	Boustead Holdings @45		59.28	64.07
2	Affin Holdings @48		60.20	61.30
	Johor Corporation			
1	Kulim (Malaysia) @52		39.59	66.25
2	KPH Healthcare @85		42.00	63.55
3	KFC Holdings Malaysia @67		51.35	83.92

Table 4. Continued

	Stock name of PLCs & rank	Ultimate controlling shareholder (UCS)	UCS's share-holding	Shareholding of all GLICs
	Permodalan Nasional Berhad (*PNB*)			
1	Malayan Banking @2		54.96	71.23
2	Sime Darby @3		54.41	75.78
3	United Motor Works @32		56.58	73.70
4	Gamuda @33		12.22	23.21
5	SP Setia Group @41		29.68	45.82
6	Titan Chemical Corporation @50		35.30	38.68
7	NCB Holdings @96		56.40	91.36
(B)	**Malay owner-operated PLCs**			Total Malay ownership
1	MMCORP @ 30	Syed Mokhtar	42.97	49.03
2	KECANA @ 53	Mokhzani Mahathir	38.61	38.61
3	SAPCRES @ 55	Shamsuddin brothers	40.06	63.89
4	DRBHCOM @ 56	Syed Mokhtar	51.76	55.92
5	MTD @ 66	Nik Hussain	54.08	58.92
6	TWS @ 87	Syed Mokhtar	26.76	45.13

Note: GLIC – a government-linked investment company under government-control but owned ultimately by the government or an institutional fund and UCS – ultimate controlling shareholder.
Source: Data extracted from Hassan (2012).

several cases even by an individual GLIC, is often well above 50%, though this may not have been dictated by considerations of return or risk. Given the scarcity of capital, this does mean there is room for investing the tied-up capital of GLICs over more enterprises, without necessarily sacrificing on control, if that is also an ownership consideration. In the case of a few PLCs, and more so now of the KNB-owned utilities, its shareholding is significantly below 50%. This may have come to be the case as it can now exercise the role of a UCS with other GLICs. The continued dilution of its shareholding may have been induced by KNB's desire to raise capital for its investment in other ventures. Given that joint GLIC-ownership is still well above 50%, the dilution may have led to the purchase of those shares by other GLICs. To the extent this is so, and the purchases have been dictated by considerations of control, the GLIC making the purchase may be forced to remain a long-term shareholder. So long as the buying is by a retirement fund or a unit trust, this may not match the risk-return profile of its members or investors, as it is then taking a business and not a portfolio risk.[15] It is also clear that the likes of PNB is the UCS of a few PLCs. PNB and the EPF are now also the sole or a substantial investor in a few major infrastructure and property development

[15] In 2010 Amanah Saham Bumiputra (ASB), PNB's biggest unit trust fund, had invested in the equity market 76.8% of the RM83.8 billion of funds under its management. Of these investments in equity, ASB's single counter exposure to Maybank was 34.8% and to Sime Darby 23.4%. Interestingly over the period 2004 to 2011, the share of Maybank and Sime Darby in total market capitalisation, only ranged from 3.8% to 5.9% and 1.9% to 6.3% respectively (Yap, 2012).

ventures (Thillainathan, 2021). These forays are also not in the interest of their unit holders or contributors. They are then taking a business risk with their managers ending up spending a disproportionate share of their time in managing such ventures. They should be acting more as a portfolio manager. Taking such a business risk may expose PNB's unit trusts to a run on its limited liquid funds, strain its role as a manager to be the buyer of last resort to its unit holders, and may force it to divest the underlying shares, thus undermining its capacity to keep the shares within its stable.

Empowering the GLICs and by extension the GLCs to invest in business enterprises has a few advantages. The budget and borrowing constraints they face are likely to be more binding, more so if the government imposes on itself restrictions on the balance sheet support it can provide.[16] Decentralised decision making by managers on a more specialised basis can also make for better outcomes and less concentration in risk taking, especially if the goals set, the incentives provided and penalties imposed are properly aligned.

3.2 Abuse of the Private Finance Initiative (PFI) Concessions

The facilities constructed under the PFI and BLMT (build, lease, maintain and transfer) programs will carry a significant mark up over their likely cost if the contracts to build had been awarded on a competitive basis. In addition, the lease rentals charged provide the BLMT concessionaire an effective internal rate of return (less maintenance charge) at least twice as high as the equivalent yield the government would have incurred had it issued bonds (Thillainathan & Cheong, 2019). As to how the upfront and ongoing profits are likely to be shared between the BLMT concessionaire and the decision maker is a matter of conjecture.

The number of Malays who made it as owner operators even with privatised concessions were few. Now more corporatised infrastructure activities are undertaken by SOEs and some are even awarded through competitive tenders (Thillainathan, 2022). It may be suggested that the BLMT concessions are being used with effect from 2006 to increase the number of Malays entering business as owner operators. This is only partly true. The numbers are still few. More likely, considerations of rent-seeking and rent sharing, may have led to the increased reliance on BLMT concessions. The risk-return profile of a typical BLMT concession is a lot more favourable than that of a privatisation concession in the post-2006 period. However, the increased scrutiny to which such concessions have been exposed to after the defeat of the Najib administration in 2018 has led to the award of fewer BLMT concessions.

3.3 Multiple Instruments to Target Multiple Goals: The Pitfalls

The government has been making active use of four key instruments in promoting Malay entry into business as owners and operators, namely restrictive licensing practices, control of price and margins and directed vendor development programs

[16] Indiscriminate extension of government support and subsidy has made for poor capital allocation and bad outcomes. For instance, EPF was making big loans to Perwaja Steel based only on government guarantees. It was more discerning of project risk when there were no such guarantees.

as well as grant of financial support and subsidy. These instruments have been used widely either together or on a selective basis in many areas of the Malaysian economy. However, in this paper, we have chosen to illustrate their use with reference to the automobile industry, because the first three instruments have been used aggressively in this industry.

In building an auto industry, the twin goal was firstly to develop a national champion in manufacturing and assembling, which is substantially governed, managed and/or manned by Malays and secondly promote a vendor development program, where the majority of the auto component parts manufacturers, are Malays. To achieve these two key goals, the government imposed tariffs and quotas (including mandatory deletion of component parts), over a 20-year period until 2004 on the auto industry, in non-compliance with its global and regional trade commitments (Segawa et al., 2014), and on a scale which was dramatically different from the policies it had been adopting of integrating its traded goods sector with the global economy through which Malaysia successfully emerged as an upper middle-income country by the mid-1990s. Even now it is imposing some form of non-trade barriers to support the domestic manufacture of certain classes of cars.

An important aspect of the restrictive licensing practice that is in place in the auto industry, as in many other areas of import trade, is the approved permit (AP). One needs an AP to import a motor vehicle, whether it is in the form of a completely-built unit (CBU) or a completely knocked down (CKD) pack. There is an excellent analysis of the use of import tariffs and APs (or quotas) to protect and enrich assemblers, manufacturers and vendors, that is neither performance based nor time bound (Segawa et al., 2014; Tan, 2008). As 10% of total demand for new cars is to be met through APs (Fong, 2011), and as the going rent from an imported car under an AP is up to RM40,000 (Oorjitham, 2014), the total rent that AP holders can earn annually may amount to as much as RM2 billion. Despite the occasional public outcry against such rent-seeking arrangements, there is as yet no end in sight for the scrapping of the APs.

Price control has been imposed, with the exception of a few items, only on a selective basis and mostly during festive periods. Of the exceptions, such as a few food items and building materials, the most glaring one is fuel, as its retail price along with its refining and distribution margin, are subject to control, subsidised by tax payers. The margin has been fixed at a rich level. From industry sources, one gathers that the income of a dealer (who number about 3,000 and 75% of whom are Malays), selling a volume of 300,000 litres a month (which is a little below the volume for an average station), is RM20,000 or above. The income therefore of 3,000 dealers a year is around RM0.75 billion a year (a sizeable part of which is due to lack of competition and the share of Malay dealers is RM0.56 billion). Fuel subsidy which amounted to about RM30 billion (Treasury, 2023) or 1.6% of GDP in 2023 benefits the car-owning population, the auto industry, the toll road sector and is a big drag on the economy including making it harder to achieve Malaysia's Net Zero targets.

To pinpoint the pitfalls of such policies, we confine our analysis to the auto industry, partly based on availability of data and partly in the interest of brevity. It is important to note here that the government faced no such trade constraints in requiring the likes of Tenaga Nasional Berhad (TNB), Telekom Malaysia Berhad (TMB)

and Petronas to promote and develop Malay vendors, as they were engaged in the provision of non-traded goods and services or had deep pockets.[17] The cost borne by the economy from such pursuits was therefore less transparent.

4. Promoting Malay Entry into Business as Owner-Managers versus as Managers

Where Malay entry into business has been promoted as an owner-manager of a privatised venture, there is no misalignment in incentive so long as ownership and management rights vest with the same individual. Problems can arise if the scale of the venture allows the concessionaire to be only a part-owner or requires the party to borrow excessively, at the enterprise and or even shareholder level. Where entry takes place as a manager, the key problem is due to the separation of ownership from control. This can cause a misalignment of incentive and to abuse (including the risk of expropriation of the ultimate owners), if there is no effective check and balance on the party which exercises governance and management oversight. There is also the risk that a SOE which has the explicit or implicit credit support of the government will enjoy an unfair advantage on its borrowings over an owner-managed entity which enjoys no such support. More generally, whether an entity is under an owner-manager or a manger, it will enjoy an advantage over any other enterprise, if it is accorded a favoured treatment, as has been not unusual in Malaysia.

In what follows, the focus is on reviewing broadly the performance as well as the key problems and issues encountered, arising from the country's experience in promoting entry through the corporatisation or privatisation route. There was a discussion, in Section 3, of these matters arising from the use the country has made of:

- GLICs in enabling Malays to scale the heights of Corporate Malaysia from an almost non-existent level in 1957,
- the BLMT model in promoting entry as an owner-manager in the era of corporatisation and institutional fund management, and of
- multiple instruments in aggressively promoting entry within an industry or sector with multiple goals.

The four most prominent existing SOEs to be corporatised and or privatised were the Malaysian Airline System (MAS), Malaysian International Shipping Corporation (MISC), Jabatan Telekom Malaysia (JTM) and Lembaga Letrik Negara (LLN). MAS and MISC, incorporated as companies, were privatised and listed in 1985 and 1987 respectively. JTM was a departmental enterprise, but LLN was already a statutory authority. JTM was corporatised in 1987 and floated as a PLC in 1990 as TMB. LLN was also corporatised in 1990 and listed in 1992 as TNB.[18] MAS, MISC, TMB and TNB were

[17] In a frank interview, the Petronas CEO, Tan Sri Shamsul Azhar had lamented that "Companies under Petronas vendor development program are no pushovers either as they are usually politically linked." They are unhappy that Shamsul had clamped down on their request to be allocated contracts. "Some were loading up their costs by as much as 48%, making exceptionally big margins." "I am a Malay too. I am proud to be one…. You think I don't want to help my own people? Of course, I want to help them, but in the proper way … not through handouts and spoon feeding." Shamsul told the *Edge Weekly* (2014).

[18] In 1997, TNB was the top PLC in terms of market capitalisation, with the ranking of TM at number two, MISC at 13 and MAS at 23 among the top 100 PLCs listed on the Malaysian stock exchange (Gomez et al., 2017).

only partially privatised with most shares still owned by the government. MISC's LNG tankers, which form its main line of business, continues to enjoy a monopoly position in Malaysia. However, MAS faced stiff competition from the entry of Air Asia and Middle East carriers in the new millennium. TMB continued to be a monopoly until the licensing and operation of mobile carriers from the late 1990s. With respect to TNB, with the licensing of independent power producers (IPPs) from the mid-1990s, it faced competition in power generation but to-date it continues to enjoy a monopoly position in transmission and distribution in Peninsula Malaysia.

With respect to the corporatised and or privatised provision of government facilities and services in the infrastructure and utility sectors, it was then not uncommon for concessions awarded to be rich, for assets to be taken over at well below their market values, and or to be accorded generous financial support and subsidies (Thillainathan, 2021). Some concessionaires, as in the transport sector, did not have a guaranteed offtake contract, whereas others, such as independent power plants (IPPs) and water treatment plants (WTPs), faced no such demand risk (Thillainathan, 2022). Within the transport sector, for instance, there was a lot less uncertainty about toll road demand, if privatisation entailed an upgrading or redevelopment of an existing route. In contrast, the demand uncertainty faced by the light rail transit (LRT) sector was a lot more substantial. The failure to introduce road congestion pricing to deal with externalities, and continued fuel subsidy, made matters worse for the light rail transit (LRT) operators.

With the outbreak of the AFC, several key Malay-owned privatised enterprises, such as those engaged in or operating toll roads, LRTs, water distribution, sewerage, air and shipping lines and motor car manufacturing, failed. This failure was caused by their under-capitalisation, over-expansion, over-borrowing, asset liability mismatches, restrictions on pricing on an unsubsidised basis, inadequacies in knowhow as well as in the ability to compete or even manage and or shortcomings in governance (Tan, 2008; Thillainathan, 2021 & 2022). There were no failures among the IPPs or WTPs, whether owned privately or by government, primarily because they faced no demand risk or asset liability mismatches.

The failures were not necessarily caused by ownership of the enterprise. It can also be due to constraints in the financing of the investment and sale, which is best illustrated with Malaysia's experience in railroad operations and water management. For instance, an LRT operator failed, even when it was led by a GLIC, as in the case of the EPF-led Sistem Transit Aliran Ringan (STAR), when it faced a capital constraint (one self-imposed). The operator was also exposed to massive asset liability mismatches and refinancing risk from over-reliance on excessive short-term floating rate debt to fund its very long-dated fixed assets. Consequently, it faced a big shortfall in revenue to cover its cost (caused both by inadequate demand as well as by pricing that was non-competitive versus pricing in road transport that did not take account of externalities). In railroad operations, where it was operated as a national network, assets continued to be retained by the state. Where it was managed as a decentralised urban network by a privatised operator, and where the assets had to be taken over by the state, this had to be done due to the inability of the privatised entity to raise the required long-term capital, with its role thereafter limited to that of an operator and not as the owner of the assets. It was no different with water treatment plants and water distribution,

as pricing and under-investment were serious issues. The water distributor was able to sell to end consumers at the controlled price so long as it did not have to over-pay for its treated water. The most serious problems arose when the two lines of business were operated as separate businesses. When the two businesses were operated on a combined basis, they were able to generate a small operating surplus, irrespective of ownership, as was certainly the case in Penang, which was state-owned and in Johor, which was privately-owned and operated (Pua, 2011; Tan, 2012). The decentralised provision of water at the state level by a government department or a public authority is still the norm today. The attempt to privatise water treatment and water distribution failed, which is due to the inability or unwillingness of stakeholders to raise the required capital to upgrade the aged distribution network, to sell water on a commercial basis (by the state government which has the rights over the management of water resources) and or to provide the subsidy (which should be undertaken by the federal government as it enjoys the right to tax to raise revenue).

A brief overview of three management buyouts that were deployed to promote Malay entry as owner managers in the early 1990s shows vividly that growing blindly on over-borrowing can lead undoubtedly to failure and on how prudence cannot be faulted if the strategy is to stay in business. Two of these buyouts involved GLCs, one a real estate developer and investor Peremba Bhd at RM250 million and the second of holding company Kumpulan Fima Bhd with two highly profitable PLCs at a price of RM190 million. The third buyout (through a reverse takeover) was by MRCB of two listed media outlets controlled by UMNO, the ruling party, at a price of RM800 million. All buyouts were fully funded by borrowings (Searle, 1999, pp. 96–100 and 218–220). MRCB's aggressive diversification into financial services, (with stakes both in RHB and CIMB banks), through entry into construction and property development (with KL Sentral as its flagship development) and even into utilities, caused it to "flounder under the weight of more than RM4 billion of debt." With its takeover by Khazanah in the post-AFC period, MRCB refocused on construction and property development as its core activity, the media business was spun off and expanded under a new PLC, Media Prima Bhd, and all its other businesses were sold off as non-core assets to reduce its debt load (Wong, 2012, pp. 391–395). However, Searle's (1999, p. 100) assessment that neither Peremba or Kumpulan Fima "has yet shown much sign of moving beyond patronage that sponsored them" was a bit premature. Peremba did engage in asset shuffling and asset sale but to reduce its debt load. In the post-AFC period Peremba has confined its activities to property development but on a much-reduced scale, while the new owner of Kumpulan FIMA Bhd, quickly sold its stake in United Plantations Bhd for RM125 million to pare down its debt. It retained control of FIMA Metal Box Bhd, and since then has grown it progressively, first by focusing on security printing business thanks to the award of a rich concession, and thereafter by re-entering and growing its plantation business.

With the onset of market liberalisation, which the country was unable to resist in certain activities, the automotive, steel and aviation industries have performed poorly, whether state or privately-owned. Inadequacies in management and know how have compounded the problem. This has been more so with Proton as the pace of technological change has been rapid and as the country has faced prohibitively high cost

from the use of multiple instruments to achieve the multiple goals. These enterprises and in particular Perwaja Steel[19] and to an extent MAS were also the target of mal-governance and financial irregularities (Segawa et al., 2014; Tan, 2008; Wain, 2012).

In addition, in contrast to the many failed Malay-managed enterprises in manufacturing and trading, Petronas, a Fortune 500 company, is an exception. It has made a successful entry into downstream activities in the oil and gas industry, as a refiner, manufacturer, distributor and as a shipper, without enjoying any special breaks from the government or through any cross-subsidies from the profits arising from its oil franchise. Petronas success in its specialised ventures may be due to the employment of managers with the required knowhow and efforts to minimise abuses.

Thillainathan (2024) noted the spectacular failure of banks during the AFC whether managed by owners or GLICs and of significant under-performance by state-owned plantations during the Covid-19 pandemic. Nevertheless, Malays have also emerged as a dominant force in mobilising and managing funds. PNB is the biggest fund manager after EPF. It enjoyed a preferential allocation of reserved shares at below market value. This is much less so post-1996. A PLC's share issue price is now more market determined. A failure by the GLICs, which are institutional funds, to minimise risk through diversification has emerged as a more serious problem. The government's aim, apparent or otherwise, to ensure outright control of a PLC, through the joint shareholding of KNB with other GLICs, has the tendency to compel the latter to be a long-term holder, thereby compromising or undermining their ability to optimise their operations as fund managers.

Following the glaring failures of key privatised enterprises after the AFC, and to an extent due to rising wealth inequality, (as the number of private concessionaires were few, and as the successful ones recorded an explosive growth in their wealth), there was a shift in the goal of Malay entry into business from promoting them as owner managers to promoting their entry as managers or as part-owner managers. The failed privatised ventures were renationalised and restructured, and thereafter, were managed as corporatised and/or part-privatised government entities (Gomez, 2017; Wong, 2012) by the rapidly growing group of Malay managers.

Patronage, cronyism and rent-seeking was most rampant in the award, on a non-competitive or restrictive basis, of procurement and construction contracts, in licensing for instance of certain imported goods, as well as in the award of BLMT and privatisation concessions, including of choice pieces of land at well below their market values which certainly benefited a few well-connected individuals. There was a lot less abuse with the issue of shares at IPO prices which were at a discount to their market values, as they were allocated substantially to more widely held Malay institutional funds.

A SOE, which involves a separation of ownership from control, as is also the case with any management-controlled widely-held PLC, is exposed to the risk that those managing and governing a SOE may be maximising their private benefits of control, and not of shareholder value. Weak rules and regulations as well as their ineffective

[19] Perwaja Steel recorded accumulated losses of RM9.9 billion from 1982 to 1996, when it was privatised. When it ceased operations in 1999, the losses had mounted to RM15 billion. About RM9 billion of the losses was incurred under the watch of its Chinese CEO, Eric Chia (Wain, 2012, pp. 158–162).

enforcement, can also expose a SOE, or of a part-owner managed entity, as was the case with highway operator PLUS, to the risk of expropriation[20] (Thillainathan, 2021). Given the power structure in Malaysia, the ultimate control of SOEs is or may rest with politicians. Inadequacies in the system of check and balance on the government's executive arm aggravates the problem. And the problem is compounded further if SOE management is delegated to politicians and not professionals and if regulators are weak. These inadequacies have led to several cases of glaring abuses (Thillainathan, 2021; Vighneswaran & Gomez, 2014).

It also has to be acknowledged that in setting up a SOE as a company, this will make for less parliamentary oversight and control and hence expose the entity more to the abuse of power, especially if regulatory oversight is also weak. But this has to be weighed against the gains in business flexibility from over-zealous bureaucrats, as attested to by the business history of the National Electricity Board and the Port Kelang Authority (Rajasingam, 2020; Tate, 1989 & 1990). Thanks to politicians, Tabung Haji (TH) also suffered from mal-governance and under-performance. However, this was not the case with its listed key Islamic Bank subsidiary, BIMB. As a bank and a PLC, it was subject to fairly effective regulatory oversight, BNM in particular. In the case of the Felda group, its 1995 restructuring that made it operate more as a company and less as a statutory body, made for less parliamentary oversight and hence to check and balance that is even weaker. But its poor performance occurred under the appointees of the Najib administration which took power in 2009.

In the post-AFC period, complaints by Malay businessmen of crowding out by the SOEs have become more commonplace (Thillainathan, 2021). Malay managers are now competing with non-Malay businessmen almost on a level playing field in the plantation and banking sectors. There is therefore a case for a Malay owner operator to be allowed to compete with the Malay managed SOE as well as for a non-Malay entity to bid for a concession, as has come to be the case in power generation with the dawn of the open tender era post-2012. Levelling the playing field however can be a challenge. In the case of power generation, as set out in Thillainathan (2022), the playing field will not be level if the power utility (TNB) is allowed to bid for a concession so long as it remains a monopoly in transmission and distribution. As a SOE can have a decided advantage over a private enterprise on access to capital, to level the playing field, at the minimum it should not be accorded any credit support or preferential treatment in its capitalisation or in facing a bankruptcy. As noted in the paper, a case can also be made for some degree of preferential treatment for entry of Malays into the small and medium-sized businesses, so long as this is performance based and time bound and so long as the quota set for Malay entry is not unreasonable.

[20] In the case of PLUS (the biggest highway operator with an exceptionally well-developed expressway), its controlling shareholder Halim Saad, was only a part owner. As he exercised this control indirectly, his effective interest was even lower. In 1997, he only had a 23.5% stake in Renong Berhad and Renong had a 37.1% stake in UEM, which in turn had a 100% stake in PLUS. The rest of the shares in Renong and UEM were held widely. The abuse of UEM and PLUS, in the run up to the AFC, can be attributed to the misalignment of interest between the owners and the manager, arising from Halim's exercise of control over UEM and PLUS through a pyramid structure, as well as to weak laws and regulation (Thillainathan, 2021).

The government was able to produce a growing pool of better trained and more capable Malay managers to manage the corporatised SOE ventures and activities. This it was able to do by pursuing an aggressive human capital development program, at the expense at times of other communities, by streaming the more talented Malay students into well-staffed and well-equipped residential schools and thereafter sponsoring their admissions into choice courses and universities around the world. As second- and third-tier students were also fully sponsored for studies locally or abroad, there was an abundant pool of eligible graduates to choose from, to correct any mistakes made in the initial streaming and to tap any late developers, as well as to ensure an abundant supply of well-trained and well-educated personnel, to meet the needs of a business for second- and third-tier support staff.

5. Concluding Remarks

Malay presence in the modern business sector was almost non-existent at the time of the country's independence, whereas some of the businesses which have scaled the heights of Corporate Malaysia now are Malay-managed. There has been more success in promoting the entry of Malays into business as a class of managers, whether owned by the government or an institutional fund, though the success rate and the resulting cost and benefits have varied over time and across sectors. There would have been little success in promoting their entry as a class of owner operators, in the absence of protection or sizeable government subsidy. The extensive use of government support makes for a higher incidence of rent-seeking and expanding of more resources in capturing that rent. However, Malaysia's experience in promoting Malay entry into banking as an owner-manager is certainly an exception (Thillainathan, 2024). The two part-owner bankers, acquired their banks at market value and competed successfully on a level playing field. They, as in the case of highway operator PLUS, did not survive the AFC, due primarily to the ambitious expansion of their business groups and failure to raise the required funds to recapitalise their enterprises. The two banks, including PLUS, have performed well post-restructuring. PLUS performance is especially striking. Its restructuring was also at market value without any handover of assets. This was unlike in 1994 at the commencement of its operations, when half of its 500km highway was handed over to PLUS by the Malaysian Highway Authority (Thillainathan, 2021).

The government has also been aggressively promoting, since the dawn of the NEP, and to-date under a succession of programs, Malay entry also into micro and small-business ventures, and not just into the making of art and handicrafts, as was the case in the early years. These programs are being effected not only through restrictive licensing but also by providing the chosen few an easy access to credit, seed capital and or equity, as well as extensive support services in training, marketing and technical knowhow. From casual empiricism, it is readily evident that this led to a rapid rise in the earnings of the more resourceful individuals. There is also a possibility that this aggressive promotion may generate a few rags-to-riches stories among the really enterprising individuals. This is a less costly way to promote Malay entry into business, as compared to some of the other programs highlighted above. But as in the case of any preferential programs, if it is not performance based or time bound, the cost of such programs can mount over time from missed, lost or denied opportunities.

We have noted that soon after the outbreak of the mid-1980s economic crisis, with the launch of the corporatisation and privatisation era, Malay entry into business first took the form as an owner or part-owner manager, of a corporatised entity. There was no misalignment in incentive where the owner was also the manager. But the huge scale of the projects undertaken led to high gearing, both at the enterprise and shareholder levels. With the outbreak of the Asian financial crisis (AFC) in the late 1990s, and in the face of the failure of several Malay-owned privatised entities, Malay entry into business was promoted once again as a manager of the corporatised enterprise, but now owned singly or jointly by GLICs. With this change in entry from an owner-manager to that of a manager of a business operated by a SOE or an institutional fund, the risk profile of such a business was higher, essentially due to the separation of ownership from control and hence a misalignment in incentive. And where the government relied on the build, lease, maintain and transfer contracts to promote the entry of Malays into business, as it did from 2006, its opportunity cost to the economy was a lot higher as the risk–return terms on which these contracts were awarded were probably much richer than even the concessions that were awarded during the first two decades of the privatisation era. And where Malay entry was promoted into business as an owner, manager and/or as a vendor, its opportunity cost to the economy was also a lot higher where it was undertaken through the imposition of highly restrictive practices, or through the award of substantial financial support and subsidy or through the control of prices and distribution margins. This is vividly clear from Malaysia's use of multiple instruments, at prohibitive cost, to promote Malay entry into the motor industry as a manufacturer, vendor, trader and dealer.

A key policy lesson from this exercise is to minimise spectacular failures and to keep cost from spiralling, the owner-manager entry goal should be scaled down and the time horizon extended, to ensure that the selected do not engage in excessive borrowing and the support given is performance-based and time-bound. In the case of Malay-managed enterprises, to ensure that they continue to scale the heights of Corporate Malaysia, and to minimise the risk of expropriation, a regime of effective check and balance has to be implemented and institutionalised with a minimum of delay.

In the post-AFC corporatisation era, we have noted that two top institutional funds, namely PNB and EPF, have been willing to acquire a controlling interest in a PLC even where this did not entail a transfer in management control. To date this has only involved three well-performing but more widely-held PLCs in the property and construction business, with the acquirer keeping to a minimum its acquisition cost by working with a friendly party or two so as not to trigger a mandatory general offer. However, there is also a need, where necessary, for a rethink by the ultimate controlling shareholder (UCS) of a PLC in sectors such as plantation, banking and asset management, to consider appointing outsiders as top managers or reducing their shareholding so long as that does not jeopardise its UCS status. It is likely that the UCSs of PLCs in these sectors may be equally less well-placed to shift or match some of the business risks to which they are exposed, or these PLCs may not be operating on a sufficiently large scale to diversify risk or they may not be as well capitalised. Concessionaires in certain privatised infrastructure activities have been prepared to accept more restrictions on who they can appoint as managers, contractors, or suppliers

but they have been willing to do so because of the favourable terms on which they were awarded the concessions and not because they are well-placed to manage such risks. To optimise outcomes, it is more important to rely less on such restrictions. In the case of a GLIC, unlike EPF and PNB, even where it has gone into a new venture, it has not to date been as flexible. Given the scarcity of top talent, capital and the need to diversify risk, it is in the best interest even of a GLIC, to invest in more enterprises without insisting always on management control as well as to cut back on excessive investment by keeping its shareholding in any enterprise at a level that is deemed comfortable for it to remain as its UCS. Development of inside talent and managerial capacity within a PLC may suffer if it chooses to place little or no reliance on outside talent.

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Appendix: Glossary of Abbreviated Terms

AA	Affirmative action
AFC	Asian financial crisis
BLMT	Built lease maintain transfer
BOO	Build own operate
BOT	Build operate transfer
EPF	Employees Provident Fund
FELDA	Federal Land Development Authority
GLC	A government linked company referred to here as a subsidiary of a GLIC
GLIC	A government-linked investment company under government-control with the ultimate owner as the government or an institutional fund
IPP	Independent power producer or plant
JTM	Jabatan Telekom Malaysia (Telecommunications Department)
KNB	Khazanah Nasional Berhad, Malaysia's sovereign wealth fund (SWF)
KWAP	Kumpulan Wang Persaraan (Retirement fund of government employees)
LLN	Lembaga Letrik Negara (National Electricity Board)
LRT	Light rail transit
LTAT	Lembaga Tabung Angkatan Tentera (Armed Forces Fund)
LTH	Lembaga Tabung Haji (Pilgrims Management Fund)
MAS	Malaysian Airline System
MISC	Malaysian International Shipping Corporation
NEP	New Economic Policy
PDS	Private debt securities
PLC	Public listed company
PLUS	Projek Lebuhraya Utara-Selatan (The North South Expressway)
PNB	Permodalan Nasional Berhad (National Investment Corporation)
SEDC	State Economic Development Corporations
SOE	A business enterprise owned and operated by the state as a government department, a statutory or public authority, an investment holding company (GLIC) or as a company (GLC).
TMB	Telekom Malaysia Berhad
TNB	Tenaga Nasional Berhad
UCS	Ultimate controlling shareholder
WTP	Water treatment plant