

The bumiputera corporate equity issue revisited
Malaysiakini.com
September 5, 2010

COMMENT More than five years have passed since the Asian Strategy and Leadership Institute (Asli) corporate study report revealed that bumiputera ownership of corporate equity in the Kuala Lumpur Stock Exchange had exceeded the 30 percent target.

malaysia stock exchange market klse 141008 09The study's findings of a 45 percent bumiputera share were based on a different method of measurement compared with the official one.

Using market value as opposed to the par value valuation official method, and allocating the equity of GLCs according to racial share, the study noted that time had come to do away with the policy that had been implemented since the 1970s.

The study's findings raised a hue and cry not only because it challenged the official data on the share equity attained by the Malay community, but more importantly because it challenged the official orthodoxy.

Strong reactions from various Umno leaders at that time indicated their fury - and perhaps fear - that the Asli study negated a long-held belief on how the bumiputera corporate equity strategy was necessary for bumiputera economic advancement, and synonymous with the interests of the Malays.

nazir razakLost in the firestorm were the study's recommendations that encompassed a wide spectrum of issues. Those recommendations are reproduced below.

I hope they will be read more carefully by the present crop of policymakers and politicians who are trying to find their way out of what has correctly been referred to as the "bastardisation of the NEP", an assessment made by one of the nation's foremost bankers, Nazir Razak (right).

Findings on corporate equity

The following findings and recommendations are drawn from the Centre for Public Policy Studies' 2006 report.

- * GLCs are leading shareholders of corporate equity. The GLCs' pattern of operation reflects little entrepreneurial and manufacturing capacity.

- * Regulatory agencies ensure that 30 percent of the equity of quoted firms are owned by bumiputera. These agencies do not, however, ensure that individual bumiputera allocated large volumes of publicly-listed equity, especially during IPOs, retain their ownership of this equity.

- * Publicly-listed shares distributed to bumiputera minority shareholders during IPOs should be done in a more equitable and transparent manner. Currently, an elite benefits from such IPOs, and these shares are quickly divested for huge profits.

- * The continuous divestment by bumiputera shareholders (partly as a means of asset diversification) has been mainly responsible for the so-called "under achievement" by bumiputera in relation to the NEP corporate equity targets based on the official definition.

* Even if this divestment is not taken into account, bumiputera share of corporate equity presently is well in excess of the target of 30 percent, if more objective methodologies of measurement are used.

* There is little intra-ethnic business cooperation among leading Chinese businessmen. There is growing evidence of inter-ethnic partnerships forged on a basis where the partners contribute equally to the development of an enterprise.

* Government regulation and policies, principally in the form of NEP measures, are stymieing entrepreneurial development and hindering domestic and foreign investment.

Recommendations of the report

* Enterprises owned by the GLCs must be managed by competent professionals with expertise in the business of the company under their charge. Senior management positions should not be determined on the basis of ethnic background but on merit and professional achievement.

* The government should cease allocating equity to individual bumiputera during IPOs. The allocation of shares to bumiputera before IPOs tend to promote 'Ali-Baba' relationships that only serve to undermine investor confidence and foster ill-will.

* Bumiputera trust agencies, such as the ASN and ASB, should be the primary beneficiaries of IPOs allocated to this community. At the same time, there should be equal determination by the government to increase the share participation of the Indian and East Malaysian bumiputera communities through similar community-based trust agencies.

* Government initiatives to promote enterprise development on the basis of affirmative action will undermine entrepreneurial endeavours, that have emerged primarily among SMEs without state support.

* The government should focus its attention on promoting key economic sectors and SMEs as a means to develop Malaysia's economic potential. The government should particularly tap into the potential of the new middle class to create thriving enterprises and find means to support such endeavours.

* Racially-oriented affirmative action and the promotion of Malay-owned businesses have created serious intra-ethnic Malay cleavages while also hindering the creation of a competitive economic environment. The government should not continue with the promotion of such policies.

* In calculating the respective ethnic shares of the corporate equity, there is need to apportion the share of GLCs as well as nominee companies according to the ethnic composition of the country. This will provide a fairer and more objective computation of the respective ethnic shares as compared with the current methodology.

* Government policies to enhance Malay bumiputera and other ethnic minority participation in commerce and industry are better achieved through capacity-building efforts such as investment in human resource development and skills training rather than through forced equity restructuring.

Continuing wayang on Malay equity

It is understandable why Perkasa and similar parasitic groups are raging away at the corporate equity issue. The ultra-nationalist movement badly needs issues that can burnish its credentials as the protector of Malay interests and derail the structural reforms the country needs to flourish.

malaysia stock exchange market klse 141008 05What is incomprehensible is why Umno continues to harp on the attainment of the racial corporate equity share target as a key goal to be pursued for the Malays and the country as a whole.

It is absolutely the wrong target to focus on because it has been conclusively shown to benefit only a minority of well-connected and already wealthy business and political leaders - numbering perhaps no more than a few tens of thousands of individuals and their families at most.

One would have thought that the RM52 billion out of RM54 billion of equity value sold off by bumiputera preferred investors between 1985 and 2005 would be sufficient proof that these individuals do not need more perks and special treatment.

More important, the bumiputera corporate equity target is the wrong target as it will only distract from the more important challenges that the nation and especially the Malays and other bumiputera communities need to face up to.

Copyright © 1999-2007 Mkini Dotcom Sdn. Bhd.
Source : <http://www.malaysiakini.com/news/141981>