

Culture of High Performance for GLCs

We gather here today to take a determined step, to see through a concerted effort, towards making Malaysia a more competitive and developed nation. As leaders of and participants in the nation's development, we are acutely aware of the challenges we face from an increasingly demanding global economy. The international flow of funds, goods and services means that no company is shielded from the forces of competition. At the same time, it also means that no company is confined to its national borders in seeking opportunities. Thus, against this backdrop of 21st century challenges and opportunities, we clearly see the imperative for decisive action towards improving the competitiveness of our companies and sustaining our nation's growth.

This decisive action requires nothing less than a remaking of Malaysia incorporated. The concept of close partnership between government and business still forms the foundation of Malaysia Inc., but it is imperative that we shift the basis of this partnership to that of tangible achievement and performance. On the part of the government, this means enhancing the public service delivery system. On the part of business, this means improving company performance and enhancing shareholder value.

Nowhere is this more relevant than in government-linked companies, or GLCs. Improving the performance of GLCs is simply one of the most significant steps we can take towards achieving our vision for competitiveness and prosperity. In terms of revenue and asset base, GLCs account for a substantial component of the Malaysian economy. For example, the 40 public-listed GLCs present here which comprise only 5% of the number of companies on Bursa Malaysia, together make up 34% of the total market capitalisation of the Bursa. That adds up to an enormous RM232 billion in market value, more than half of Malaysia's GDP. Thus, any considerable improvement in the efficiency and performance of GLCs would bring about

Keynote Address by Dato' Seri Abdullah Ahmad Badawi, Prime Minister of Malaysia and Minister of Finance at the seminar on "Culture of High Performance for GLCs" at Theatrette, Ministry of Finance, Putrajaya, Selangor on 14 May 2004.



massive benefits, not only to the stock exchange, but also to the income, consumption and wealth of the nation.

GLCs also make up the backbone of the country's economy. Through the provision of 'mission-critical services' such as transportation, energy, telecommunications and financial services, GLCs serve a pivotal role in the operation of every commercial concern in Malaysia. These same vital services also contribute significantly towards improving the quality of life for ordinary Malaysians. Hence, improving the performance of GLCs would also have a far-reaching effect on the performance of the economic sector as a whole, as well as the well-being of all Malaysians.

Nevertheless, GLCs are not just anchors for the stock market or inputs to the Malaysian domestic economy. With its experience, assets and G-2-G linkages, GLCs are strategically placed to take advantage of cross-border opportunities. With the right focus and effort, GLCs can be global players in their own fields, capable of exporting and branding their products, services and expertise in the spirit of making Malaysia a 'true trading nation'. In short, GLCs are not only stewards of the nation's wealth; they can also be trailblazers on the world economic stage.

Some GLCs have shown that they are up to the challenge. Petronas is a stellar example. It currently operates in over 30 countries and remains Malaysia's only contribution to the global Fortune 500 list of world's largest corporations. Petronas is the pride of Malaysia and evidence of what we can achieve if we put our hearts and minds into continuously enhancing our performance.

However, many other GLCs appear to fall short, both in terms of quality of their goods and services, as well as in their financial performance. As an indication, we find that the total return to shareholders of public-listed GLCs actually trails behind overall market performance by 21% over the last five years. This is a significant loss for the shareholders and for the nation. Several reasons have been given for this underperformance, including 'social or national policy obligations'. Yet, companies such as Petronas appear to be thriving under the same conditions. I am sure that some of the reasons may have some justification, but I believe that we must move away from limiting ourselves or blaming our circumstances and start pushing ourselves to achieve more.

For all the reasons that I mentioned, it is therefore urgent that we put all our GLCs firmly on the path to greater performance. Earlier, I had said that we must take decisive action on this issue. Essentially, this means to systematically instill a high performance culture within GLCs by making people in the companies more accountable for, and more rewarded by, company performance.



I have long advocated the importance of the right culture, values, attitudes and mindset for the nation, as well as the critical role of people in all spheres. Machines and technology are but tools; ultimately, it is human ability, talent and commitment that drive performance and change. In a knowledge-driven world, a company's human resources are the source of its competitive advantage. However, we cannot hope to get the most from people, whether ourselves or others, if people are not accountable for, and not motivated by, good performance. Therefore, we need to make performance measurable and performance needs to be tied to a system of rewards and penalties (not unlike a simple carrot and stick approach). In this case, we must be able to evaluate people's performance objectively as well as reward them according to the level of their contribution.

In line with this, during a special announcement of measures to boost the Malaysian capital market made in March last year, I mentioned that key performance indicators (or KPIs) would be implemented in GLCs to enhance their value and performance. In January this year, I reiterated my stand in a speech to the National Economic Action Council, where I announced the intention to implement and monitor KPIs for GLCs in the immediate term. Throughout this intervening period, two pilot projects on KPI implementation have been running in Malaysia Airlines and Malaysia Airports, respectively. These pilot projects have gone well, and a task force headed by the Second Finance Minister have distilled the learnings into a booklet of 13 guidelines. These guidelines as well as the seminar today, should form a strong basis from which we take the next step, namely to implement performance linked compensation in all GLCs.

I am sure that most if not all of the GLCs are already familiar with the rationale of designing and monitoring key performance indicators. Nevertheless, the difficulty often faced is in implementing the system effectively. For instance, performance evaluations in GLCs are often inflated and without differentiation, where 90% or so of employees are summarily rated as 'good' or 'very good' performers. Bonuses paid out may not be based on performance. For these reasons and more, an implementation steering committee has been set up, headed by the Second Finance Minister, to monitor KPI implementation in GLCs. This steering committee will meet once a month to track progress and to resolve any issues that may arise. I would like to emphasise here that the setting up and heavy work of this steering committee indicates the government's seriousness to see through these changes. It is vital that we move away from the culture of the iron rice bowl and of promotion by seniority towards a culture which recognises and promotes performance.

Proper implementation entails not only the design and allocation of KPIs; it also involves the linking of KPI performance to pay and tenure. In line with this, the government will put in place a higher variable element for senior management



compensation, involving bonuses and stock options, linked to the achievement of targets in their KPIs. We will also ensure that all members of senior management at GLCs be employed on contract basis for a fixed term, with renewal dependent on the achievement of their targets. Ultimately, we want to create a new generation of corporate stewards for the new Malaysia incorporated: professional managers with a strong focus on high performance and superior value creation.

At the same time, the principles of performance linked compensation should be substantially applied to all levels of the organisation, where it will become the basis for bonus, promotion and tenure. The sense of accountability and ownership needs to be ingrained throughout the organisation so that a culture of performance can prevail. To further strengthen the performance culture, there will also need to be greater alignment in compensation between GLCs and the market. Human resource costs make up a relatively small 10%-15% of total costs in GLCs, but the cost of human error, lack of motivation and attrition could well be much larger. We may need to review the compensation structures within GLCs so that we can attract and retain the best management talent and the most promising employees.

Senior management of GLCs will play a large role in spearheading efforts to instill a high performance culture within their respective organisations. The process is a difficult and challenging one, requiring commitment and persistence. There are no short-cuts to this process. Nonetheless, we should not forget the significant role to be played by the boards of directors of the GLCs. As protector of shareholder interest and the 'strategic architect' of the company, the board must necessarily be passionate and vigilant about performance. This means setting achievable but challenging targets for senior management, based on appropriate global benchmarks. This also means contributing meaningfully, in a way that empowers the management to perform and deliver results.

The government is very much aware of the need to reap the synergies from a talented board and a capable management. Henceforth, boards at GLCs will be made smaller (to 10 or less members) to enhance their focus and effectiveness. In addition, the government will strive to appoint more professional directors with the experience and knowledge to contribute to and safeguard shareholder interests. Increasingly, the government's interest in GLCs will be represented by directors chosen from a pool of professionals, distinguished ex-civil servants, specialists and other knowledgeable Malaysians who have distinguished themselves in their respective fields.

In the interests of professionalism and propriety, the government will ensure that government representatives who are also regulators no longer act as directors at companies which they regulate. We aim to remove any possible conflicts of interest in the running of GLCs, given that legally, directors should

only act in the shareholders' interest. Of course, consultation between regulators, policymakers, the boards and management of GLCs will be necessary in order to smoothen the flow of work, but the aforementioned changes should be undertaken in order to strengthen the performance factor of Malaysia incorporated.

As major shareholders of GLCs, the government will continue to focus on maximising the investment value for the government of Malaysia and to provide support. For example, the government can capitalise on its linkages to assist GLCs in identifying or forming investment partnerships, particularly with foreign GLCs and technology partners. In general though, the government believes in empowering the directors and management of GLCs to carry out their professional duties. Thus, for its part, the government will strive to put in the required supporting structures and give the needed flexibility for directors and managers to perform and deliver.

I have expounded upon several principles of performance management and board professionalism at some length. Some of these principles will be put into immediate practice, starting with the implementation of KPIs at GLCs. As another example of putting principles into practice, I would like to announce a few changes to be made to the structure and operations of one of the government's premier investment vehicles, Khazanah Nasional.

The government would like to see Khazanah emerge as one of the biggest and most dynamic investment houses in the region. In line with this, the board of Khazanah will be restructured and reduced in number. New professional management will be injected into the senior ranks of Khazanah. In the spirit of rationalisation, there will be a transfer of public-listed company shares belonging to MOF Inc. to Khazanah Nasional to consolidate some of the government's holdings and to reap the benefits from Khazanah's new management and board of directors. Together with the implementation of KPIs, I believe that these changes will see Khazanah emerge stronger, more nimble and able to create more value for the government. I also expect to see similar changes to other GLCs and holding companies very soon.

Beyond implementation of KPIs, there should also be a more comprehensive framework for corporate governance in the country to enhance private sector performance. The enforcement of corporate governance standards and associated laws needs to be stepped up and improved. We cannot afford to merely have the best laws in place and yet fall short in terms of implementation and enforcement of those laws.

The enforcement of corporate governance currently depends on the police, the companies commission and the securities commission each playing their respective roles effectively. Due to the nature of investigation for commercial crime or misconduct (which spans securities law, companies law and criminal

